

# FINANCIAL TIMES



**Hong Kong**  
Post-1997 illusions  
and delusions

Philip Stephens, Page 16



**US banking**  
The dinosaurs  
fight back

Page 14



**Potash**  
Why PCS is on a  
take-over spree

Page 21



**Philippines**  
Tiger status  
awaits

Survey, separate section

World Business Newspaper <http://www.ft.com>

WEDNESDAY SEPTEMBER 18 1996



**Europe's  
most  
respected  
companies**  
The joint FT/Price  
Waterhouse survey of  
corporate excellence,  
as judged by Europe's  
top managers  
Separate section

## Gold held in UK may be given to holocaust victims

Nazi gold which has lain in the Bank of England's vaults for 50 years could be transferred to the families of holocaust victims. UK foreign secretary, Malcolm Rifkind, yesterday said he would raise the possibility of transferring the metal, which has a current value of about £3m (\$4.5m). Recovered from Germany after the second world war, the gold is held in the name of the UK, US and France. Page 10

**Hackers threaten** Hacker attacks on commercial Internet sites are raising fears for the security and reliability of the world wide computer network. Sites have been swamped with false requests, tying up the computers and denying legitimate users access. Page 16; Western skills shortage, Page 10

**Italy's rail probe deepens** Italian police made more arrests as prosecutors deepened their probe into alleged corruption and fraud involving Italy's state railway. Page 2

**China threat over Dalai Lama** China threatened Australia with trade retaliation if prime minister John Howard goes ahead with plans to meet the Dalai Lama, Tibet's exiled spiritual leader. Page 16

**Czech crisis** The Czech republic's central bank stepped in to prevent a liquidity crisis at Agrobank, the country's biggest private bank, as financial ripples spread from a previous bank failure. Page 16

**Nikkei Securities**, one of Japan's top four brokers, slashed its earnings forecasts as sluggish summer trading on the Tokyo Stock Exchange hit commission revenue. Nikkei now expects interim consolidated recurring profits of ¥100m (\$1.5m) before extraordinary items and tax - down 20 per cent from the previous year. Page 20; World stocks, Page 20

**Cuba unveils** Cuba has negotiated deals with 40 companies in the eight months since the introduction of the US Helms-Burton law punishing those companies for doing business with Havana government officials. Page 17

**Experts check Chernobyl** Radiation levels surged inside the ruined fourth reactor at Ukraine's Chernobyl nuclear power plant. Experts are investigating whether this could trigger a chain reaction. The reactor exploded 10 years ago and was encased in concrete.

**Izethgovic leads in Bosnia poll** Bosnia's Muslim president Alija Izethgovic looked set to beat his Serb rival in the race to head the new collective leadership.

**Yeltsin set to stay in hospital this week**



Russian president Boris Yeltsin (right) will probably spend the rest of this week in a Moscow hospital undergoing tests before planned heart surgery. But he was well enough to receive prime minister Viktor Chernomyrdin (left) for an hour. Page 8

FT.com: the FT web site provides online news, comment and analysis at <http://www.ft.com>

STOCK MARKET INDICES	
New York: Dow Jones Ind. Av.	5,872.55 (+16.85)
NASDAQ Composite	1,199.78 (+5.82)
Europe and Far East	
UK: FT-100	2,928.08 (+1.79)
FT-SE 100	3,972.3 (+4.9)
Nikkei	21,318.59 (+487.9)

US LUNDSBYRATES	
Federal Funds	5.75%
3-month T-bill	5.301%
Long Bond	5.85%
Yield	5.85%

OTHER RATES	
UK 3-yr interest	5.75% (same)
UK 10 yr Gilt	5.85% (same)
France 10 yr GAT	10.75% (100.48)
Germany 10 yr Bond	10.50% (100.714)
Japan 10 yr JGB	10.25% (100.714)

NORTH SEA OIL (Argus)	
Brut Dated	\$21.50 (22.545)

Currencies	
Australia	US\$ 0.75 (0.75)
Canada	US\$ 0.70 (0.70)
Denmark	DKK 6.46 (6.46)
France	FFr 166.63 (166.63)
Germany	DM 1.93 (1.93)
Italy	Lira 1,936 (1,936)
Japan	¥ 109.00 (109.00)
UK	£ 1.00 (1.00)
US	\$ 1.00 (1.00)

## Leeson's bid to be a star led to Barings crash

By John Gapper and Nicholas Denton

Mr Nick Leeson, the former derivatives trader for the merchant bank Barings, started hiding losses in a secret account within weeks of starting trading in Singapore in July 1992, according to an investigation by FT reporters. The investigation has established that Mr Leeson, who is in jail in Singapore, used his hidden account to number 88888 to absorb losses caused by selling derivatives to customers of Barings at artificially low prices. The investigation - to be published in a book next week - has found that in September 1992, Mr Leeson in effect gave away \$450,000 in pricing subsidies to investment banks and funds that were buying futures through Barings.

It found that the root of the Barings collapse lay in an effort by Mr Leeson to make himself seem a star executor of orders on Simex, the Singapore futures exchange, by giving Barings' customers improvements on market prices. Mr Leeson does not seem to



ALL THAT GLITTERS  
The Fall of Barings  
Page 8

have been motivated by personal gain, but was attempting to ensure a smooth start in his new job. However, the losses created by his improvements to futures prices later spiralled out of control. Official inquiries into the

collapse in February 1995 have highlighted the rapid growth in hidden losses in 1994, when Mr Leeson was trying to gamble his way out of trouble. Barings finally collapsed when the losses reached \$830m.

But it has not been clear why Mr Leeson started to use his hidden account to absorb losses in 1992. Mr Leeson himself has claimed that he built up losses in an effort to cover up "errors" made by junior traders whom he supervised. The investigation, drawing on interviews with traders who worked with Mr Leeson,

confirmed that most of these losses were not caused by errors. Instead, they stemmed from Mr Leeson's use of account 88888 to subsidise his execution of trades.

By spring 1993, Mr Leeson's execution of some types of futures trading was so far out of line with the rest of the market that Barings' customers were charged an extra commission for the opportunity to deal through him. There is no suggestion that the banks that bought futures through Mr Leeson's unit Barings Futures - including

Banque Paribas, Fuji Bank and Chemical Bank - knew why they were being offered relatively cheap prices.

However, other traders employed by Barings suspected that Mr Leeson might have been achieving such prices by taking risks on market movements.

Nine former managers of Barings, including Mr Peter Norris, its former chief executive of investment banking, have either been banned for up to three years for failing to prevent the collapse, or face such bans by City regulators.

## EU seeks to use \$1.2bn surplus for beef aid

By Caroline Southey in Brussels and Alison Maitland in London

European Union farm ministers yesterday made a controversial bid to use a surplus of about £1.2bn (\$1.27bn) in the 1996 farm budget to aid the ailing beef sector. They rejected a proposed cut in aid to cereal farmers to fund a map-up of surplus beef stocks, caused by falling consumption.

The French initiative could pit farm ministers against finance ministers intent on cutting back EU expenditure to help cut national budgets to meet the criteria for monetary union. It could also contravene EU budgetary procedures.

The farm ministers also rejected a plan from Britain to renegotiate a cut in the cull of 125,000 cattle, agreed by EU members in June in return for a phased lifting of the export ban on British beef.

The British government was last night set to tear up the agreement, though it may press ahead with its own limited cull of about 22,000 cattle at high risk of contracting BSE or mad cow disease from their diseased mothers.

A British official said Mr Douglas Hogg, the agriculture minister, would report to the cabinet committee on BSE tomorrow. The chances were high that the full cull would be abandoned, he said.

Mr Franz Fischler, European Commissioner for agriculture,

expressed "extreme concern" at possible British action to reduce the cull.

EU officials rejected suggestions by Mr Karel Pinxten, the Belgian farm minister, that the EU might retaliate by cutting off funds earmarked to help Britain cope with the crisis.

Commenting on the call for the EU surplus to be used to help the beef sector, Mr Fischler said the money had not been earmarked for beef production and would normally be returned to member states.

Spending the money before the end of the 1995 financial year on October 15 would prevent the surplus being returned to member states' coffers.

Mr Fischler warned that a legal basis for shifting money between the 1996 and 1997 budgets would have to be found.

An EU official said the proposal would still have to "get past national budget authorities. They are unlikely to be sympathetic, with the Maastricht criteria for monetary union hanging over them."

The Commission has estimated that £1.5bn will be needed to take excess beef stocks off the market. Mr Fischler has proposed raising the money by cutting aid to arable farmers, including a reduction of 7 per cent in payments to cereal farmers.

But most members states rejected his proposals. Britain, Denmark and Sweden were the only countries to support the cut in cereal aid.



French finance minister Jean Arthuis (left) and his German counterpart Theo Waigel told the meeting of the Franco-German economic council that their countries' economies were developing in parallel and would grow faster next year

## Paris and Bonn vow to meet Emu date

By Peter Norman in Karlsruhe, Germany

Germany and France yesterday pledged to bring their deficits back below 3 per cent of gross domestic product next year so that the European single currency can start as scheduled on January 1, 1999.

After a regular six-monthly meeting of the Franco-German economic council, Mr Theo Waigel, the German finance minister, and Mr Jean Arthuis, his French counterpart, said the countries' economies were developing in parallel and would grow faster next year.

Mr Arthuis - who is due to present his 1997 budget to the cabinet today - forecast that French GDP would grow by 2.3 per cent in 1997 up from 1.3 per cent this year, while the German government expects faster growth of between 2 and

2.5 per cent in 1997 from about 1 per cent this year.

The ministers also reported progress towards agreement on Germany's call for a stability pact to ensure that fiscal deficits stay under control once European economic and monetary union has been established.

However, differences of detail remain, making it uncertain whether the meeting of European economic and finance ministers in Dublin

this weekend will reach agreement on the issue.

Mr Waigel said France and Germany agreed that a stability pact was essential for the welfare of Europe's citizens and the success of Emu, while Mr Arthuis underlined the need for continuing budget discipline.

But, while Mr Waigel insisted that France and Germany had moved "very far" on the stability pact in recent months and were "clear about

all decisive points", he said discussions still had to be held on the sanctions that would be applied to countries that failed to keep their deficits below 3 per cent. In particular, the size of the deposits and fines that would be levied still had to be clarified.

Mr Hans Tietmeyer, the Bundesbank president, said the stability pact would have

Continued on Page 16  
Arthuis's Emu faith, Page 2

## Olivetti shares fall again as investor confidence ebbs

By Andrew Hill in Milan and Paul Taylor in Paris

Pressure on Olivetti to clarify its financial and trading position was increased by Italian stock market supervisors and magistrates yesterday, as investors' confidence in the information technology group continued to ebb.

The group's shares fell a further 10 per cent to another record low of £4.65 as Olivetti executives worked on a swift response to 15 detailed questions posed by Consob, the stock market watchdog.

Judicial sources at Ivrea, where Olivetti has its headquarters, confirmed that magistrates were investigating Mr Carlo De Benedetti, Olivetti's former chairman, and Mr Antonio Tesone, his successor, about allegations that the company issued misleading half-year results. Mr Francesco Caio, the chief executive, is

also under investigation. Olivetti was expected to issue a partial response to Consob's questions, first posed by stock market regulators in meetings with Mr Caio and other directors last week.

The most important questions relate to the valuation of Olivetti's stakes in subsidiaries and associated companies, the reasons behind a £200bn (\$32.1bn) first-half provision for future disposals and restructuring, and Olivetti's exposure to credit risk on certain large contracts.

On Monday, Consob insisted that Olivetti issue a statement within 24 hours to allay market concerns about the company's financial situation.

The watchdog's move followed Olivetti's postponement of meetings with analysts in Milan and London, at which Mr Caio had been due to explain the group's first-half results. The shares have lost

nearly 40 per cent of their value since the beginning of the month. A day after Mr De Benedetti's resignation as chairman, Mr Renzo Francesconi resigned as director-general in charge of finance at the holding company.

The group has denied allegations by Mr Francesconi that the half-year results were worse than those published. Meanwhile, Siemens Information Systems, the computer unit of Siemens, the German industrial group, ruled out purchase of, or partnership with, Olivetti's problematic personal computer subsidiary.

Mr Caio wants to move Olivetti away from the PC business to become more of a broad-based information technology and telecommunications group. He has ruled out closing down the subsidiary, which has been a source of heavy losses and restructuring costs.

WITH A MASTER'S TOUCH AND THE TEST OF TIME

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## NEWS: EUROPE

## Dutch budget aims at single currency

By Gordon Cramb  
in The Hague

The Dutch government yesterday unveiled a 1997 budget designed to ensure the guilders entry into a single European currency - holding the public deficit well within the criteria agreed for monetary union and bringing down further the troublesome level of state debt.

Mr Cerrit Zalm, finance minister, was also able to offer the corporate sector a better taxation regime for dividends and other financial income. For industry there were modest benefits aimed at stimulating research and development, and individuals gain from a 1.1bn (\$590m) cuts in tax and social security levies.

The budget, otherwise broadly neutral, reflects growth in gross domestic product, forecast to accelerate to 2.75 per cent in 1997. This is up from an expected 2.5 per cent this year, a level already above the European Union average.

Like other countries seeking to join Emu, the Netherlands' eligibility will be judged on the way next year's outturns out. Domestic inflation and interest rates, as well as the exchange rate, are all likely to stay comfortably within Maastricht treaty limits.

The government deficit is to be brought down to 2.3 per cent of gross domestic product, well below the target ceiling of 3 per cent set for aspirant members and down from the 2.6 per cent expected for this year. In 1995 the deficit still stood at 4 per cent of GDP.

Government debt is projected to emerge at 76.3 per cent of GDP, but the reduction from 79.7 per cent recorded in 1995 and the 78.8 per cent expected for this year was the finance ministry maintained, enough to establish the "clear downward trend" allowed as a fallback position under Maastricht.

In addition to economic growth, cuts in government spending and official subsidies, as well as increased public sector efficiency, have helped bring about the improvement.

Prof Lex Hooft, a central bank economist, told an institute of Directors seminar in The Hague yesterday that the projections were vulnerable to setbacks in the state's attempts to bring down its outgoings on welfare.

Social security payments will remain linked to wages but, in a greying society, state pensions are to be brought under scrutiny with a likelihood that provisions will be reduced in the future.

Of the tax changes, one of the most significant will allow an effective rate of just 7 per cent for multinationals which centralise their finance activities in the Netherlands. A risk reserve can be created to absorb interest or leasing income and service fees. The shift makes the country more competitive with Belgium and Ireland, which have been seeking to attract such businesses.

Dividends accrued by companies will under another measure be subject to a total tax levy of 61.3 per cent. The previous rate, in the absence of a system such as the UK's advance corporation tax, was at times above 70 per cent.

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## Relaxed finance minister vows France will fit the Maastricht bill

## Arthuis holds firm in Emu faith

By David Owen and  
Andrew Jack

For a man who will today unveil the most important and closely scrutinised French budget of recent years, Mr Jean Arthuis seems in remarkably relaxed mood.

At dinner last week in the finance ministry's vast modern Bercy headquarters in east Paris, he indulged in a cigar and the occasional joke before returning to his paperwork.

Did the finance minister's good humour suggest the doubters had nothing to worry about? That the detail of the budget would not after all finally shoot the government's fox by making it clear France had next to no chance of qualifying for economic and monetary union in 1997?

Certainly, he insisted as firmly as ever that the government would hit its target of restricting the general budget deficit to 4 per cent of gross domestic product in 1996 and 3 per cent in 1997.

This is the maximum permitted by the Maastricht treaty's convergence criteria which set out conditions European Union member states must fulfil to join the planned single currency.

But he went considerably further, stressing that the aim for 1997 was to hold the deficit at 3 per cent, and that the five-year target was to cut it to less than 3 per cent.

And he claimed that today's finance bill would be an important landmark in its own right since, for the first time in many years, it would provide for a level of government spending that was no higher than the previous year, after taking account of inflation.

"That is very good news," he said. "France was late to realise that high public spending risked stifling the economy and destroyed the potential for creating jobs. There was a feeling that ever higher public spending was inevitable. But now the direction is turning. This supposedly ineluctable trend has at last been stopped."

It is essential not to allow any backsliding either on the criteria, or on the proposed timetable. We want the treaty, all the treaty and nothing but the treaty. I refuse to imagine the hypothesis in which monetary union will not take place.

French Finance Minister  
Jean-Arthuis

So far, so impressive. But Mr Arthuis appeared to acknowledge that the spending clampdown could have been tougher. Plans to reduce the country's 2m-strong civil service by just 6,000-7,000 in 1997 meant that for every 10 civil servants who retired, only one would not be replaced. "Perhaps it would have been wise not to have replaced a larger number," he said.

In his discussion of the detail of the government's deficit arithmetic, he said nothing likely to alter the strengthening impression of international observers that if France did fit the Maastricht bill, it would be thanks to the imaginative handling of certain excep-

tional items. These include a one-off FF37.5bn (\$7.4bn) payment from France Télécom, in return for the transfer of certain pension liabilities, which will count for the purposes of the 1997 deficit.

On this year's deficit, Mr Arthuis said the government would hit its target of 4 per cent of GDP even if the deficit of the social security system was significantly higher than the original FF17bn projection. Lower-than-expected receipts as a result of the country's sluggish growth and near-record unemployment mean that many observers now expect the shortfall to be about three times this figure.

Mr Arthuis said this gap would be offset by a number of factors, including a surplus of approximately FF15bn from Unedic, the government's unemployment benefit fund; a small surplus from the Cades, a new body set up to refinance the country's accumulated social security debt from previous years; and "good news" from the local and regional authorities.

He also indicated that the government would avoid including the FF2.5bn cost of its recent rescue package for Crédit Foncier, the specialist property bank, by paying for it out of proceeds from France's extensive privatisation programme. These are not normally counted for the purposes of the Maastricht criteria.

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As for 1997, most analysts estimate that the France Télécom payment - equivalent to nearly 0.5 per cent of GDP - would not be quite enough for the government to hit its vital 3 per cent target unless the economy grows faster than the 2 per cent to 2.25 per cent currently expected.

In this case, many expect ministers to turn to a more customary ploy: bank the Caisse des Dépôts et Consignations, a state-owned financial institution, to make up the difference. The government has passed no comment on recent reports that it is planning to take FF18.5bn from this source in 1997, and Mr Arthuis bristles at any suggestion that there would be anything wrong in such a move.

"The Caisse des Dépôts is always complaining that we are taking their money," he said. "But what does this mean? It is a bit like you drawing money out of your account at Barclays Bank. The Caisse des Dépôts manages money for the account of the state."

Nevertheless, the fact that France is already resorting to such special payments is causing concern among some economists, who fear the government may have nothing left to pull out of the hat if growth is further impeded by events such as a recurrence of last winter's crippling strikes. Mr Arthuis argued simply that renewed industrial action on the scale of last year was unlikely. "People are more reasonable this year," he said.

In what could be interpreted as a further sign of confidence, he made it clear he was against any move to make the Maastricht requirements less onerous.

"It is essential not to allow any backsliding either on the criteria, or on the proposed timetable," he said. "We want the treaty, all the treaty and nothing but the treaty. I refuse to imagine the hypothesis in which monetary union will not take place."

EU showdown, Page 14  
Editorial Comment, Page 15

## EUROPEAN NEWS DIGEST

## Italian rail probe widens

Italian police yesterday made further arrests as prosecutors deepened their investigation into allegations of corruption and fraud involving the Italian state railway. Police arrested two magistrates and Mr Pier Francesco Guarguaglini, chief executive of Oto Melara, the state-controlled arms manufacturer with headquarters in La Spezia, where the investigation began.

The prosecutors will today question Mr Lorenzo Necci, chief executive of the state railway Ferrovie dello Stato (FS). He and three others were arrested at the weekend in connection with an investigation into allegations of fraud, embezzlement, corruption, abuse of office, falsification of accounts and crimes against public administration.

Yesterday the La Spezia magistrates ordered police searches of a number of Rome addresses. These included the office of Italcas, the FS subsidiary which was the vehicle for last year's acquisition of a 20 per cent stake in Contship Italia, a private container-handling and freight company which owns the La Spezia container terminal and is behind the revival of the port of Gioia Tauro in Calabria, southern Italy.

Andrea Hill, Milan

## Spain, Italy robust on Emu

Spain and Italy both tried to douse scepticism about their prospects for joining the European single currency at the end of a bilateral summit meeting in Valencia yesterday. Mr Romano Prodi, Italy's prime minister, said both countries were equally determined to be part of European monetary union from the launch date of January 1, 1999. Asked if Italy's commitment to the timetable was as strong as Spain's, he said it had "the same solidity".

Mr José María Aznar, his Spanish counterpart, spoke only for his own government's position, however, reaffirming his pledge to take "all the necessary measures" to enable Spain to participate in the single currency "from the first moment". David White, Madrid

## 'Cashless' pay at VW

Volkswagen yesterday announced a new "cashless" pay scheme, under which employees will receive part of their wages in the form of a new security called a "time-value share". The scheme allows workers to build up savings to finance early retirement, or merely to use them as credit for extra holidays.

Wolfgang Minichau, Frankfurt

## Chernobyl radiation fears

Radiation levels inside the Chernobyl nuclear power plant's ruined fourth reactor rose sharply this week and a director said yesterday specialists were investigating whether this could cause a chain reaction. Mr Valentyn Kuptsov, in charge of the "sarcophagus" surrounding the reactor, said meters inside the cracking steel and concrete structure had shown big increases for a time on Monday. Scientists did not have full control of the nuclear fuel grill inside 10 years after the explosion.

Russell, Kiev

## EU foreign plan from Paris

France is pressing the European Intergovernmental conference (IGC) to accept its plan for a more permanent "troika" to represent the European Union in world affairs. The current troika changes every six months to accommodate the country holding the rotating presidency as well as the previous and future holders.

Mr Michel Barnier, France's European affairs minister, proposed to the IGC last week that the troika should include the country currently in the chair together with a new "high level" foreign policy co-ordinator of the Council of Ministers and a single European Commissioner for foreign affairs which France hopes the IGC will approve. France wants to reduce the number of commissioners to around 10, with just one responsible for foreign policy which is at present split between five of the 20 commissioners.

French officials yesterday welcomed support from Germany's ruling CDU party for the new-style troika, which they also claimed had not met opposition from other EU partners. The aim is for the EU to be represented by a team that does not change totally every 18 months, but has at least two members with terms of 4-5 years.

David Buchan, Paris

## BIS under pressure on gold

The Bank of International Settlements yesterday came under intensified pressure over the fate of gold looted by the Nazis, with a demand from Mr Alfonso D'Amato, chairman of the US Senate's banking committee, to publish its records from the time.

Mr D'Amato said: "We have discovered documents at the US National Archives, some of which have only been declassified this year, and explain in great detail the numerous shipments of gold from the Reichsbank to the BIS, as well as shipments of gold to Argentina. These documents detail vast amounts of gold accepted by the BIS that might well have not been repatriated after the war." In a letter to Mr Andrew Crockett, BIS chief executive, Mr D'Amato asked for the bank's records to help his committee "close this chapter on the war once and for all".

John Authers, New York

## ECONOMIC WATCH

## Swiss recession gets deeper

Switzerland's recession is getting deeper and longer. The Federal Statistics Office reported yesterday that the country's gross domestic product fell by an annualised 0.9 per cent in the second quarter. This is the sixth consecutive quarterly decline and is likely to lead to a further downgrading of growth forecasts. As recently as July the Organisation for Economic Co-operation and Development had forecast Switzerland would grow by 0.5 per cent in the current year, and by 1.7 per cent in 1997. Earlier optimism that Switzerland was finally shaking off its reputation as Europe's weakest economy has been undermined by news of rising unemployment and the strength of the currency. GDP growth estimates for 1995 were revised down from 0.7 per cent to 0.1 per cent earlier this month. Mr Peter Brühmann, chief economist of the National Bank of Switzerland, yesterday forecast a 0.6 per cent fall in GDP for the full year followed by 1 per cent growth in 1997.

William Hall, Zurich

Spain's unemployment rate fell to 22.04 per cent in June from 22.27 per cent in May, according to the National Statistics Institute (INE) survey of the active population. INE said the number of jobless fell by 34,920, or 0.99 per cent, in June to 8.78m. The number of employed climbed by 20,110, or 0.21 per cent, to 9.78m in June from May. The INE figure compares with the 14.15 per cent unemployment rate in June calculated by the Labour Ministry using the number of unemployed persons registered in the offices of the National Employment Institute.

AFZ, Madrid

## EU MPs to demand Netherlands state TV protection seeks more power for EU

By Neil Buckley  
in Strasbourg

The European parliament is today expected to issue a strong call for state-owned broadcasters to be protected by European legislation against fast-growing commercial companies.

A report by Ms Carole Tongue, a British member of the parliament's dominant Socialist bloc, calls for legislation allowing "stable and realistic state aid" to continue to public broadcasters. It also calls for satellite and cable companies to be barred from being exclusive transmitters of sports events, and for state channels to be allowed to bid jointly for TV rights without falling foul of EU competition rules.

The controversial report was debated yesterday and is expected to be adopted by a majority today, although a series of amendments has been tabled by the Christian Democrat European People's Party, the second biggest bloc. The EPP says the report fails to recognise the importance of competition in broadcasting, and the benefits brought by commercial channels.

The report warns that public service broadcasters' audience share in the European Union almost halved from 82 per cent in 1984 to 46 per cent in 1994, as commercial companies such as Germany's Kirch and Bertelsmann, France's Canal Plus, and Mr Rupert Murdoch's

A legal adviser at the European Court of Justice has told Sweden, which bans TV advertising aimed at children, that it cannot restrict commercials broadcast from another EU state, Reuter reports from Brussels.

Advocate-General Murray Jacobs issued an opinion yesterday saying the European Union's television without frontiers directive "prevents a member state from taking action against television advertisements broadcast from another member state".

Opinions by the advocates-general are only advisory, but are often followed by the court in later rulings.

A ruling against Sweden could prevent it from intervening against advertisements broadcast from other EU countries.

Europe's advertising industry sees the case as a critical test of its right to provide services across the EU. Sweden is the only EU country that has a general ban on advertising aimed at children under 12. Mr Jacobs said EU law allowed Sweden to ban such commercials if both the advertiser and the broadcaster were based there and they were broadcast on a domestic TV channel received only by viewers in the country.

public channels including France 2 and France 3, Portugal's RTP, and Spain's TVE benefit from unfair state aid.

The right of state channels to club together to bid for sporting rights was also challenged by a European Court ruling in June.

The parliament resolution says public funding should be regarded as legitimate for public broadcasters, even if they can supplement this through other means such as advertising provided funding is proportionate and they are fulfilling public service obligations.

The resolution also says that public service broadcasters must be able to reach audiences through all available technology.

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By Gordon Cramb  
in The Hague

The Dutch government yesterday set out its stall for its presidency of the European Union, which will run for six months from January during a crucial period in moves towards further integration.

A foreign ministry document published with the annual budget papers notes that the Inter-Governmental Conference launched in Turin in March to review the Maastricht treaty - concluded the last time the Dutch were in the chair - is due to be concluded by mid-1997. Depending on the rate of progress, the Netherlands could be in charge while the final details are resolved.

The process would lead to a treaty which "must provide the Union with more power, effectiveness and democracy," the ministry says in an advance glimpse at a programme likely to arouse further anguish among British Eurosceptics.

"The new treaty must at the same time be more saleable, more transparent and more accessible to the public than at present," it says.

The Hague is in line with Britain on free trade and a number of budgetary issues but it does not share its restrictive view about the EU's institutional develop-

ment, the document says. The paper goes on to note that the BSE "mad cow" crisis has further complicated the UK's already awkward relations with its partners.

The Dutch presidency will also seek to "give an impulse" to enlargement of the union towards central and eastern Europe, and with it any necessary adjustments to trade and environmental policies.

It warns the US of its concern over the extra-territorial effects of laws passed by Congress which seek to inhibit multinationals from doing business with countries such as Iran, Libya and notably Cuba where ING, the Dutch financial group, this summer had to find a way around Washington legislation which restricted its ability to fund the sugar harvest.

But the foreign ministry acknowledges that there remain problems with its European continental partners in the Schengen accord, which allow for free movement of goods and people across national borders. It urges the removal of French frontier controls, seen by Paris as a necessary restraint on drug traffic from the Netherlands. Electronic scanners to search for drugs are to be installed in Amsterdam harbour and the city's Schiphol airport.

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## Brussels to probe Crédit Lyonnais

By Neil Buckley  
in Strasbourg

The European Commission is expected today to launch an investigation into suspicions that Crédit Lyonnais, the French state-owned bank, was allowed to restructure a former subsidiary, Société de Banque Occidentale, on advantageous terms.

The probe under state aid rules, expected to be approved by commissioners meeting in Strasbourg today, is the latest setback in the FF450m (\$8.8bn) restructur-

ing of the troubled bank, the largest state aid package ever approved by the Commission.

The Commission is also expected to start a state aid probe into a FF27m recapitalisation of Société Marseillaise de Crédit, the French regional bank, and an in-depth vetting process of Belgian plans for BFR1.5bn (\$46m) aid to steelmaker Forges de Clabecq. Belgium's French-speaking Walonia region submitted plans in June for the capital injection, plus a BFR500m debt

write-off, for the heavily indebted Forges de Clabecq.

Société de Banque Occidentale was one of a number of Crédit Lyonnais assets hived off last year into a separate holding company, Consortium des Réalisations. The consortium was charged with preparing the assets for sale to competitors or back to Crédit Lyonnais under market conditions.

The French bank repurchased SDBO in February for FF50m, which the Commission believes is well below the market price.

Independent experts have valued the bank at FF173m.

The Commission also believes competitors were not given adequate opportunities to bid for the business - there were only seven other bidders, all French - and they were not given full information. In particular, officials say, bidders were not told of a FF274.5m recapitalisation of SDBO by the Consortium des Réalisations in January, before its resale to Crédit Lyonnais.

The French authorities will have one month to

respond to the Commission's demands for information.

They will also have one month to provide information concerning the three-stage recapitalisation of Société Marseillaise de Crédit.

Commission officials said a restructuring plan for the Marseillaise bank submitted last November appeared incomplete and insufficient to return the bank to profit before 1998. That raised suspicions that the recapitalisation contained state aid elements contravening EU law.



# Sweden stabilises state finances

By Greg Mcivor in Stockholm

The Swedish government has completed its "seemingly impossible" mission to stabilise the state's finances and its efforts would now shift to fighting the country's serious unemployment problem, it said yesterday.

In a clear message that its fiscal grip would not be loosened, the Social Democratic administration said its goal would be to achieve a budget surplus by 1999 - for the first time since the early 1990s.

In an address to MPs at the official opening of parliament, Prime Minister Göran Persson said the government, two years into its four-year mandate, had reached "half time" in halting Sweden's negative economic trend.

"A crumbling economy has turned into a stable one. Economic decline has turned into growth," he said. "We can now devote our energies and strength to tackling... unemployment."

When the SDP took power in 1994 the public sector deficit was about 13 per cent of GDP. However, a SKr126bn (\$18.8bn) four-year consoli-



Finance minister Asbrink: Permanent surplus may be needed

ation programme is projected to reduce the budget deficit to 3 per cent of GDP next year, and yield a zero balance in 1998.

Mr Erik Asbrink, finance minister, said recently that a permanent bud-

get surplus might be necessary if Sweden were to remain outside a

European single currency. The target would also help deflect demands from trade unions for higher public spending once economic growth picked up.

Mr Persson said joblessness was the government's "foremost and overriding task" and reiterated his

determination to reduce headline unemployment from the present rate of more than 8 per cent to 4 per cent by 2000.

Labour market reforms designed to make it easier for companies to employ more workers were announced last week, and these would be bolstered by measures to simplify small business start-ups, Mr Persson said.

In addition, a bill would be presented to parliament this autumn to abolish double taxation on share dividends - an initiative chiefly targeted at small and medium-sized companies. The measures are likely to be outlined in more detail when the government unveils its 1997 budget on Friday.

Earlier, Mr Persson said he was keen to introduce a leave-from-work scheme which would encourage job-sharing by allowing workers to receive up to one year in sabbatical leave, backed by generous state benefits while absent.

A similar system has proved popular in Denmark but was yesterday rejected by Swedish unions and employers as too costly and disruptive.

# Yeltsin hunts out tax decree 'culprits'

By Chrystia Freeland in Moscow

Russian president Boris Yeltsin yesterday delivered a tough rebuke to his cabinet from his hospital bed for preparing a controversial tax decree. His move has embarrassed the Ministry of Finance and revealed the growing muscle of the Russian business community.

In a directive which brought cheers from Russian entrepreneurs, Mr Yeltsin took his administration to task for "a superficial approach" and "inadequate consideration of the most serious issues" in the preparation of an August decree aimed at clamping down on tax evasion. He asked for the names of the "guilty" officials to be on his desk within one week.

For all its harsh, Soviet-era tone, the presidential reprimand underscored how, after centuries of autocratic rule, the Russian state is gradually making an effort to tailor its laws to the will of its citizens.

Earlier this month, in an unprecedented U-turn, the Kremlin annulled the unpopular tax decree, bowing to warnings that it could trigger a run on the banks. Opponents had said that the vaguely worded legislation might give government the right to levy taxes on all deposits and withdrawals from personal bank accounts.

In yesterday's ruling Mr Yeltsin criticised his civil servants for preparing "a decree which provoked a sharply negative reaction

Russian President Boris Yeltsin, who has said he will undergo heart surgery later this month, is likely to remain in hospital until the end of this week for preliminary tests, writes Chrystia Freeland.

Mr Yeltsin checked into the Central Clinical Hospital on Friday and had been expected to leave at the end of the weekend. His extended stay has prompted some speculation that the Russian leader could be in poorer physical condition than his aides have admitted.

However, Mr Sergei Yastrebinsky, the president's spokesman, sought to calm these anxieties yesterday, insisting that the Kremlin chief was well enough to consult Mr Viktor Chernomyrdin, his prime minister, for more than an hour. Russian television broadcast a brief, soundless film clip of the meeting, in which Mr Yeltsin looked relatively well and relaxed.

and acute criticism from Russian society, financial and banking circles and the mass media."

Business leaders viewed this explicit presidential instruction that Russia's once all-powerful bureaucracy must bend to public opinion as a sign that the country is developing into a responsive democracy.

"If the president is willing to change his decrees it is a sign that slowly we are becoming a civilised country. Wrong decisions can now be changed - this shows we are becoming more democratic," said Mr Andrei Potelunov, a partner at Accounting Services, a Russian accountancy firm.

Just five years after the collapse of the Soviet Union, the tax controversy has also highlighted the mounting political and social influence of two of Russia's newest institutions - an independent media and private business interests.

According to Mr Mikhail Berger, one of Russia's most prominent economic journal-

ists: "It was a victory for the banks and above all for the press. This campaign was organised by the press. We all participated in it."

But the embroglio has shown how, as democratic institutions take root in Russia, the government may find it difficult to pursue some of its goals. As Mr Yevgeny Yasin, the minister for the economy, argued yesterday, despite the mistakes in its formulation the contested tax decree was an attempt to close one of Russia's most gaping tax loopholes.

To avoid personal income tax, many of the country's highest wage earners are granted an interest-free loan by their employers. The money is then put in a bank account and the employees collect the monthly interest payments - which are not taxable - in lieu of salaries.

Finding ways of clamping down on popular schemes, without provoking the wrath of the business community, is likely to be the government's most pressing challenge this autumn.

# UK-linked currency traders cold-call Sweden and Ireland from Denmark

By Clay Harris

A Danish-based group linked to a UK company raided earlier this year by the Serious Fraud Office has targeted investors in Sweden and Ireland in cold-calling efforts to sell high-risk currency trading schemes.

Scandex Capital Management has two sales operations, working out of separate premises in Copenhagen, according to a former salesman who left the company recently. Its managing director was also a director of one of three companies whose premises were raided in the UK in July.

The former salesman, who asked not to be identified, said the Scandex operation involved making unsolicited calls to businesses and individuals - at one point, by picking names out of the Cork telephone directory - to try to persuade them to sign contracts to undertake currency investments.

Although he had no background in foreign exchange, most recently having worked for a beer wholesaler in the UK, he said his cold calls often paid off.

When potential customers asked about Scandex's rating, he was told by managers to stress the name of Den Danske Bank, even though Scandex's only connection was that it had an account there. "Swedes are very trusting," he said.

Similar foreign exchange operations have drawn the attention of financial regulators across Europe. Moves to

tighten rules governing their activity have sometimes been followed by a shift to new countries or new names.

Mr Jeremy Bartholomew-White, managing director of Scandex, was a director of Euro Currency Corporation, whose premises were raided in July. It had ceased trading in April. Mr Ian Farrell, another Euro Currency director, said in Copenhagen yesterday that he was a

now operating out of Spain. Laurion, registered in Hamburg, is linked to Nordex Denmark, a company raided by police in Copenhagen last month. Mr Garreth Martin Bell, manager of Nordex, is the subject of an injunction in the Isle of Man relating to Laurion.

Mr Farrell said yesterday: "This company has no connection with Nordex. Never has, never will." Regulators in several

countries have reported complaints by investors that some foreign exchange companies had "churned" their accounts - entering into frequent trades to maximise commissions. Mr Farrell said 99 per cent of accounts with Scandex were not discretionary, so investors retained control over their trading activity.

Staff in the second office had expressed concern because they had not received their first salaries last week as promised. Mr Farrell said they were paid yesterday.

The former salesman said he was recruited in July after answering an advertisement in the Manchester Evening News. At an interview in London, he was told he would be paid £2,000 (\$3,120) a month, not subject to Danish tax as long as he

With no background in foreign exchange, the former salesman said his calls often paid off

shareholder in Scandex, and acts as a consultant to it. Mr Bartholomew-White is also a director of Anderson Ross, which offers similar currency investments from the office and phone numbers in London formerly used by Euro Currency. It is allowed to trade pending a decision by the UK's Securities and Futures Authority on its application for authorisation.

Scandex is similarly allowed to trade under interim authorisation while Finansinspektionen, the Danish regulator, considers its application. If successful, it would receive a "passport" under the European Union's Investment Services Directive to operate anywhere in the EU.

The activity described by the former Scandex salesman is similar to that at Laurion, another company

countries have reported complaints by investors that some foreign exchange companies had "churned" their accounts - entering into frequent trades to maximise commissions. Mr Farrell said 99 per cent of accounts with Scandex were not discretionary, so investors retained control over their trading activity.

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## PHILIPPINES SERIES: CORPORATE PROFILES

### AYALA CORPORATION

Considered the oldest business house in the Philippines having been founded in 1834, Ayala is also one of the country's largest conglomerates with interests in real estate and hotel development, industrial parks and shopping malls, banking and finance, insurance, telecommunication, electronics, information technology, food processing and ventures in public utilities such as mass transit systems and waterworks. A 6th generation member of the Zobel de Ayala family, Jaime Augusto Zobel II (37), is now president. He spoke to Abby Tan in Manila recently.

1. Ayala Corporation the parent company and Ayala Land is subsidiary are among the Philippines' largest companies. Can you see them keeping their position by the end of this decade?

Jaime Augusto Zobel de Ayala II: Absolutely! I don't see any reason why both can't maintain their leadership positions.

If the economy grows between five percent to 10 percent per year, there is no doubt we can achieve a rate above and beyond that. Ayala Land has a varied portfolio. We had opted to stabilise its growth during very fast growth periods and minimise the downturn in slow periods.

The way we do it is basically through three philosophies: one, we have a very conservative balance sheet even in good times. Although it will not enable us to grow as fast even in good times but it enables us protection in bad times.

Two, we strike a balance between rentals and sales generated. We never quite hit 50:50 balance. But we're cushioned when the downturn occurs as rentals are not as affected as sales. So we've a predictable source of income.

Three, we pinpoint the growth areas. We've recently joined the middle income housing market and will become a very significant player here. We built 2,000 units of middle income houses in 1996 and we hope to reach 10,000 units per year by 1998.

You'll notice it at the end of this year. It will be very visible in our balance sheet.

I'm diversifying into the banking and financial sectors. The Bank of the Philippine Islands (BPI) is very profitable. Its recent merger with City Trust Bank also a very profitable institution will result in a significant jump in combined net income and will place it at par if not ahead of Ayala Land.

This will put us in the lead in consumer banking. The entry of foreign banks gives a lot of competition to traditional areas like investment banking and corporate lending. But the one area they will have difficulty competing is consumer banking.

So you see the two pillars in Ayala Corporation: Ayala Land and BPI in very, very concerted moves to tap the middle market that had traditionally been the markets we had not tackled.

3. How has liberalisation of the Philippine economy benefited Ayala? Has it posed new challenges to a dominant company?

JAZA: That is one very, very strong hallmark of the Ramos administration. Liberalisation has created a whole new host of opportunities, encouraged foreign investments to the country (that helped real estate) and brought in new technology, particularly in foreign exchange transactions. On the telecommunications side, it has been phenomenal. Liberalisation brought in very large amounts of investment. Each company like ours Globe Telecoms (a joint venture with Singapore Telecoms) spends hundreds of millions in infrastructure.

Everything that opened up brings in foreign investments and creates competition. That has been a tremendous useful primer to the economy.

Let me add one more aspect: privatisation has lessened the load of the government. All these present a great deal of opportunities to Ayala Corporation. We are very happy to compete in open business. It has enabled us to enter new industries like telecoms and participation in infrastructure

development. 4. Ayala Corporation has started gingerly to go regional, but your partnerships abroad are still in real estate - like with Kuo Properties in Singapore, Jardines and Gammons of Hong Kong, PT Menara Duta in Indonesia, is Ayala going to focus only on property development?

JAZA: No, not really. The ASEAN and APEC phenomenon will happen. There will be lowering of tariffs and integration with local economies. That is a fundamental prospect we've accepted. That being the case we've decided to build a presence in the region.

We realise it is difficult to step into another country and offer your services. The strategy we've decided to follow is to invite regional players into the Philippines to share our projects. And they hopefully will invite us into their areas.

That is the opportunity we're trying to develop. We're keen on maintaining solid relationships. Once relationships develop opportunities come in.

5. President Ramos says he's comfortable with AFTA Free Trade Area (AFTA) 2003 and APEC 2020. Do you share the same confidence?

JAZA: We will face a more competitive environment. But that is positive, not a negative threat. I regard Ayala Corporation as a well managed, professional company that thrives on this kind of environment.

6. Looking at the economic indexes now, do they indicate that the Philippines is on sustained growth?

JAZA: There was reluctance in the past to accept sustainability as part of the equation. I would argue that, yes, macro-economic policies are consistent for a number of years now. For example, the low inflation rate is because

the Control Bank and the Department of Finance follow specific pattern in policies. There is stability in the market.

Respectively of who the leader is in future, I would say the pattern has been set by the economic managers of this country and it will be very hard to reverse.

Sustainability has been linked to the whole question of Ramos' privatisation and liberalisation. In opening whole segments of the economy to the private sectors, they have their own steam. He has addressed the power shortage, encouraged others to get into infrastructure like rail, mass transit. The infrastructure programme is exceptional and exciting. Thus growth is going to continue long term.

7. Why is President Ramos able to do what previous presidents failed to do, which is to liberalise the economy?

JAZA: He was fortunate he inherited the basic foundation of political stability from President Aquino. She started the liberal economic policies. She laid the groundwork for then Secretary Ramos to be the first democratic elected president. Her economic managers were similar in thinking of President Ramos. He has followed through more aggressively. He picked up the ball and ran.

8. There is some concern among businessmen of a post-Ramos, in 1998, that is a fear his policies might be reversed.

JAZA: I don't share that concern. I take comfort in two things: one that he will not make any moves to change the constitution (to extend his six-year limit), and two, that he will endorse someone close to his thinking. And given his popularity and success I don't see why his candidates should not win. So de facto I remain optimistic. There's a certain logic to all that.



AYALA CORPORATION

Makati Central P.O. Box 1444, ZIP 1254, Makati City, Philippines  
Web site: <http://www.ayala.com.ph>

## CONTRACTS & TENDERS

### PRIVATISATION DIVISION GOVERNMENT OF PAKISTAN

#### FINANCIAL ADVISOR FOR GUDDU & LAKHRA POWER PLANTS

Privatisation Division, Government of Pakistan is pursuing the privatisation of state-owned utilities by selling strategic stake with transfer of management control, to well-qualified and reputed international investors. With regard to the power sector, a strategic plan for restructuring and privatisation of Water & Power Development Authority (WAPDA) is being followed under which selected asset blocks (like generation units, distribution networks) are being corporatized, and 26% stake in the corporatized entities, along with transfer of management control, is being offered to strategic investors.

Privatisation Division is looking for a Financial Advisor in order to embark upon the privatisation to two power generation plants, located in the province of Sindh namely Guddu Power Complex (1655 MW) and Lakhra Coal-fired Plant (100 MW). Guddu power Complex consists of steam units, gas combustion turbines, and Combined-cycle units, while Lakhra plant has 2x50 MW fluidized-bed steam units. These two power facilities feed into WAPDA's national grid.

WAPDA, being the owner of the two plants has already created a separate organization (called WAPDA Private Power Organization - WPPPO) to oversee the privatisation process. The plant management have been asked to assemble the data and make the necessary documents available, so as to facilitate the work of the Financial Advisor.

Applications are invited from reputed investment banks, or consortiums, for providing the Financial Advisory Services, giving the following information:

1. Technical and financial information on the firm/consortium.
2. Description of projects undertaken in the power sector.
3. List of projects on privatisation undertaken by the firm/consortium.
4. Name and curriculum vitae of key staff and their work experience.
5. List of international affiliates with their confirmation letter.
6. Details of full-time presence in Pakistan, with particulars of professionals available.
7. Affidavit that the information/documents submitted are accurate.

Interested Firms/Consortiums would be pre-qualified on the strength of their past experience of similar assignments and the experience of the relevant staff. Terms of Reference (TOR) for submission of proposals would be made available only to the pre-qualified bidders.

Expression of Interest for pre-qualification should reach the following address by close of office hours, latest by Monday, September 30, 1996, at the following address:

Mr. Khalid Ahmad Khan,  
Deputy Secretary (Power), Privatisation Division  
EAC Building, Constitution Avenue, Islamabad, Pakistan  
Ph: (92-51) 9215466 Fax: (92-51) 9283076



## NEWS: ASIA-PACIFIC

# India faces delay over sell-off plans

By Mark Nicholson  
in New Delhi

The Indian government's plans to raise Rs50bn (\$1.4bn) from public asset sales this fiscal year are running well behind schedule, with bankers and some officials suggesting that the first of three planned tranches might not now be put to the markets until early next year.

Such delay would threaten the government's ability to raise the Rs50bn total before next March, the end of the present fiscal year. The receipts shortfall would endanger its target of cutting the fiscal deficit this year to 5 per cent of GDP from 5.9 per cent last year.

In his July budget, the first for the United Front government, Mr P. Chidambaram, finance minister, said he planned three tranches of sales, in September, November and January/February. Officials say they expect the first two sales to be big, single issues from two large state corporations, with the third being contingent on recommendations from a newly constituted Disinvestment Commission.

However, the first planned sale, of equity in VSNL, the state-owned international telecoms operator, has yet to

be approved by the UP cabinet. Government officials have indicated that the issue may be delayed, citing the present weakness of Indian equity markets and the proximity of a \$10bn issue by Deutsche Telekom, due to hit international markets in the next few weeks.

However, bankers suggest the government may also be nervous about proceeding with such a high-profile telecoms sale amid the present controversy surrounding Mr Sukh Ram, former Congress party telecoms minister, arrested in Delhi on Monday in connection with corruption investigations.

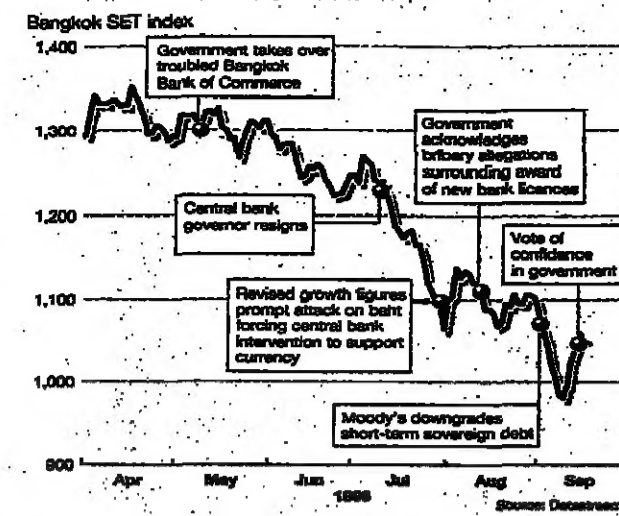
Should a VSNL issue be postponed, bankers say the only other state corporation which could readily be prepared for a divestment with the government's envisaged timetable would be Indian Oil Corporation, the state refining company.

However, bankers in Bombay said gaining approvals, selection of issue managers and co-ordinators and preparation of the issue for both domestic and international markets would take until the year's end at the earliest. Indian officials separately conceded this week that they did not expect any such issue until the "first quarter" of next year.

# Banharn pressed harder to quit

But outcome of a vote against Thai PM remains in doubt, writes Ted Bardacke

## Thailand: months of turmoil



getting too great; there could be an explosion," says Mr Suthichai Yoon, a political analyst. "The question is how to get rid of him using democratic mechanisms."

Mr Banharn's coalition partners could, for instance, vote against him when the motion is put up for a vote on either Friday or Saturday. But if he believes the vote will go against him, he is likely to dissolve parliament and call a snap election. That outcome is still slim though by no means out of the reckoning.

An election would be an unenviable prospect for government MPs still trying to exploit their position in an environment where routinely, the use of office is

sought for personal gain.

The government, for instance, has delayed the award of banking licences after it acknowledged that bribes may have been paid to politicians.

"No one except the [leading opposition party] Democrats wants an election," says Mr Amnuay Viravan, deputy prime minister. "Everyone else thinks they have a chance for power with this parliament in place."

Alternatively, Mr Banharn could resign before or after the census vote, paving the way for the formation of a new coalition led by either Mr Amnuay, General Chuan Leekpai, defence minister, or Mr Chatichai

Choonhavan, the former prime minister ousted in a 1991 coup.

A former top adviser to Mr Banharn says a resignation in these circumstances is unlikely because it would require the prime minister to make a self-sacrificing decision that would involve a loss of face.

"He honestly thinks he has done nothing wrong, or at least nothing worse than anyone else," says a former aide, while Mr Banharn himself told the Bangkok Post yesterday that just because "I've said all along that I am not tied to the position... does not mean I will back down easily."

Mr Banharn believes he will win the census vote

and be in a position to form an "all-star team" of competent technocrats to take over management of the economy. A team of technocrats would, he believes, restore the political credibility that his government lacks. The idea of a technocratic government is gaining favour in some political circles and the prime minister says he has asked Mr Amnuay to assemble such a team.

But potential members of an all-star technocratic administration are unlikely to want to join a Banharn-led government. Mr Amnuay says gathering such a team would be difficult. "I've been all over the country looking for these people [to join the government]," he says. "I know they are there but I can't find them."

If Mr Banharn survives, activist groups say they will take to the streets to demand the prime minister's resignation. Already yesterday, a small group of businessmen drove their Mercedes cars slowly to Government House and unfurled a banner calling on Mr Banharn to step down.

Such groups could be joined by rightwing elements intent on stirring up trouble and creating conditions for some form of outside intervention.

"If that happens, then all bets are off," says a western diplomat. "To find demonstrators in the streets changes the political dynamics from the palace down."

# Dhaka rings rural poor's number

Grameen Bank, which pioneered the business of lending small sums to the rural poor of Bangladesh, has been awarded one of three new cellphone licences in a government move to boost competition in the sector. And no one will be more pleased than the poor, mostly women, to whom Mr Mohammad Yunus, Grameen's founder, has given thousands of unsecured loans of as little as \$100.

With a loan recovery rate of nearly 98 per cent, Mr Yunus's clients are both creditworthy and loyal and he is confident they will take to mobile phones as they have to his "micro-lending".

"The villages will become like mobile telephone booths," he said, after his consortium, which includes partners from Norway, US and Japan, was awarded a mobile cellular phone operators' licence last month.

Grameen's aim is to make mobile phones a tool for rural development in a country where more than 80 per cent of the country's 120m population live in villages. Bangladesh has two landlines per 1,000 inhabitants - one of the lowest per capita levels in south Asia. This compares with 16 in Pakistan, 11 in India and 10 in Sri Lanka. In Thailand the ratio is about 50.

The cost of installing a digital land-line in Dhaka, the capital, is about \$600 - prohibitive in a country with a per capita income of \$220. Typically, the average wait for a phone line is 10 to 12 years, says the World Bank.

The government hopes the awards of cellphone licences will increase the number of mobile phones by nearly five-fold over the next year and a half. The decision to open the market will also put an end to the cellular-phone monopoly enjoyed by Pacific Bangladesh Telecom, a 100 per cent Bangladeshi-owned company. It was awarded the licence three years ago but has managed to attract only 4,000 subscribers, a performance that provoked the opening-up.

For the business community, the government decision, announced within 60 days of its taking office, is a decisive step. "This is a strong signal to business as well as to foreign investors, that the new government is committed to easing the way for renewed growth and private-sector investment," said Mr Salman Rahman, president of the Federation of Bangladesh Chambers of Commerce.

The Grameen Phone consortium includes Telenor, the Norwegian state-owned telecoms company, trading group Marubeni of Japan, and Gonofone Development Corporation, a New York-based company set up by expatriate Bangladeshis. The consortium will invest an initial \$25m to install 50,000 base stations (towers to relay signals from one to another) covering an area of 55,000 sq km including Dhaka, and in the south, Chittagong, Comilla and Khulna, and a wide swathe of rural area. Grameen believes it will cover the whole country in six years.

Grameen's market research reveals that total demand for mobile phones could double to about 300,000 over the next 10 years. It expects to attract about 20,000 subscribers in the first 18 months.

The other two licence winners are TM International (Bangladesh), a consortium of TM International Malaysia and Bangladesh's A.K. Khan group; and Seba Telecom, which is owned by the Bangladeshi company Integrated Services and Malaysia's Technology Resources Industries.

TM International proposes to invest about \$50m over the next 18 months to establish 94,000 lines, according to Zahiruddin Khan, chairman of the group and a former industry minister. Seba says it will invest \$75m, establishing some 80 base stations and forecasts 10,000 subscribers by early 1999.

The cost of owning a phone and making a call are now likely to be significantly reduced. Currently the cost of buying a mobile telephone and subscription is about Tk45,000 (\$1,000) which is beyond the reach of most businessmen, let alone the rural poor.

Kasra Naji

# US offers to pay its arrears to ADB soft loan fund

By James Kynge in Kuala Lumpur

The US has offered to pay its arrears to the Asian Development Bank soft loan fund within four years, opening the way for a solution to a long-standing impasse which has threatened to undermine the fund's operations.

A bank official said yesterday that Washington offered to pay off its \$234m arrears to the Asian Development Fund (ADF) soft loan window from 1997 during the fund's next four-year term, which

starts in 1997. Several members of the multilateral bank indicated an acceptance of the US proposal at a meeting in Kuala Lumpur, the Malaysian capital yesterday, but some said they were against it, a source said.

The apparent settlement comes after a period of intense wrangling over US arrears for a replenishment due in 1992. This was accompanied by US pressure on reluctant "tiger" economies to pay more into the facility, which cast doubts over whether the ADF

would be replenished in time for soft loan operations to continue in 1997.

The ADF is a cornerstone of the bank's development operations, providing poorer Asian countries with loans of 40-year maturities with a 1 per cent repayment per year after a 10-year grace period.

Members of the Manila-based bank have been concerned that a US failure to clear its arrears before the start of the seventh ADF in 1997 might lead to disenchantment and reduced pledges

from other, mainly Asian, donors.

It now remains for a meeting of ADF members scheduled to take place in Copenhagen, Denmark, in October to hammer out a final response to the US offer. If that meeting fails to do so, then another meeting may have to be arranged before the end of the year, said the official. "But we want to wrap it up by the end of the year," he added.

It seems likely that the bank will have to settle for a decline in donations for the seventh ADF

period, partly because the US is offering only \$340m - half the amount it promised the sixth ADF which has run since 1992.

The source said that some members are keen on penalising Washington for the reduction in its donation, perhaps by limiting the participation by its companies in projects funded by ADF lending.

"But this kind of penalty is not a preferred option," said the official. "However, some people do want to see a declining role for the US in the bank to reflect its

declining donations," he added.

ADB officials predicted that the ADF may manage to raise between \$30m to \$35m in fresh funds for the seventh ADF, down from the \$42m pledged for the current term. Japan, the largest donor, has offered to supply 35 per cent of total fresh funds for the ADF.

There were signs at the Kuala Lumpur meeting of progress in eliciting larger donations from the Asian "tiger" economies of Singapore, Taiwan and South Korea.

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## ASIA-PACIFIC NEWS DIGEST

# Japan's poison scare hit growth

The panic generated by Japan's food-poisoning epidemic was strong enough to kill off a short-lived recovery in consumer spending over the summer, according to official data released yesterday. Average household spending fell by 4.4 per cent in the year to July, after growing by 3.4 per cent in June, the first rise in three months. The setback comes from a decline in purchases of raw and convenience food, after the outbreak caused by the bacterium O-157 E coli, in which 10 died.

In an illustration of just how serious was the impact, the July decline in spending exceeded the 4.3 per cent fall in consumption that took place in January 1995, the month of the Kobe earthquake, which temporarily paralysed Japan's heavy industrial heartland and killed more than 6,000 people.

However, industrial output rose by 4.9 per cent from June to July, significantly higher than the preliminary estimate of 4.1 per cent issued by the Ministry of International Trade and Industry late last month. Industrial deliveries only increased by 4.1 per cent in July - albeit up from a preliminary 3.3 per cent. As a result, stocks of unsold goods and materials fell at a very slow 1.2 per cent in the same month. William Dawkins, Tokyo

## Nuclear shipment disclosed

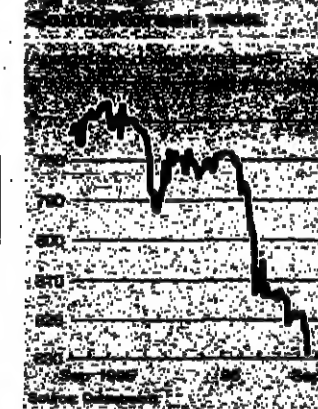
A shipment of 600 tons of uranium hexafluoride arrived in Japan's northern port of Mutsuogawara yesterday. The shipment was the first since the Japanese government decided to reveal more about its nuclear fuel shipments. The Science and Technology Agency last Friday released information of the uranium's arrival date and the name of the ship. It was the first time uranium, destined for a nuclear complex in Rokkasho in Aomori Prefecture, has been transported directly to the port. In the past a state-owned nuclear fuel company secretly transported uranium by land from Tokyo. Erika Terazono in Tokyo

## Vietnam tax bill for director

Ho Chi Minh City tax authorities have given Mr Nguyen Trung Truc, director of the Vietnamese subsidiary of Hong Kong's Peregrine Investments Holdings, a \$100,000 tax bill, the Tuoi Tre (Youth) newspaper reported. The municipal tax office assessed the taxes based on a contract between Peregrine and Mr Truc and his wife, Ms Deirdre Low, the report said. Mr Truc runs Peregrine Capital Vietnam. He has been under investigation for alleged tax evasion since May. In July, authorities announced they were pressing charges against him and his wife in connection with our imports. He has denied any wrongdoing. Until the investigation, Mr Truc, an overseas Vietnamese with an Australian passport, had been regarded as one of the most successful investors in Vietnam. AP-DJ, Hanoi

## Sri Lanka export growth dips

Sri Lanka's export growth declined in the first half of the year and analysts say the trend will continue to hit the war-battered economy in the second half. Exports in the six months to June were up by 9.47 per cent compared to a growth rate of 12.16 per cent in the corresponding period last year. Imports dropped marginally by 7.5 per cent this year. The Chamber of Commerce, which represents the private sector, said the full impact of daily power cuts since March - which had reduced production by 30-50 per cent - and labour unrest will be felt only in the second half of the year. High interest rates, rising wages, labour unrest and the withdrawal of state subsidies had added to the problems for exporters. Amal Jayasinghe, Colombo



# Sharp fall in Korean currency

By John Burton in Seoul

South Korea's economic problems have triggered a sharp depreciation of the Korean won against the US dollar, which may benefit exports but could also add to inflationary pressure.

The Korean currency dropped to a record low of 830 to the dollar on Monday before the central bank intervened to stabilise the exchange rate at 828.80, where it stood yesterday.

The central bank attributed the sharp fall in the won rate to growing demand for US dollars as Korea's current account deficit widens to a record level this year of at least \$15bn.

Demand for the dollar is increasing to meet scheduled import settlements and to cover short positions.

The won has fallen by 6.4 per cent against the dollar since the beginning of 1996 and has reached its lowest point since a restricted floating exchange rate was introduced in March 1990.

Economists said the government was letting the won drift downward to improve price competitiveness of Korean exports, which have lost market share to Japanese products as the yen weakened against the US dollar over the past year.

But there are worries that a weak exchange rate could increase inflation, which is threatening to breach the government target of 4.5 per cent this year, by making dollar-denominated raw material imports, such as oil, more expensive. A weaker won/dollar exchange rate also threatens to depress net earnings of Korean companies for 1996.



Victorious KDP leader looks to reduce reliance on Baghdad ■ US fears for its Kurdish agents

## Saddam's Kurdish ally to meet US official

By Rula Khatib in London

Mr Massoud Barzani, the Kurdish leader allied with Iraqi President Saddam Hussein, is to meet a senior US official, possibly today.

Mr Barzani, who won virtual control of northern Iraq last week with backing from Iraqi forces, will be in Turkey this week for talks with Turkish officials and will also meet Mr Robert Pelletreau, the US assistant secretary of state for Near Eastern affairs.

The US has confirmed that it is seeking a meeting with Mr Barzani, and that the meeting may be held as early as today. US officials said they were looking to explore Mr Barzani's intentions and to ensure the security of Kurds who work for US agencies in northern Iraq.

Hundreds of Kurds employed by US military and aid agencies - some of them involved in intelligence work for the US - have been evacuated from northern Iraq.

According to western diplomats, Iraqi forces earlier this month executed 100 members of the opposition Iraqi National Congress in the Kurdish city of Arbil.

After seeking Mr Saddam's direct military support in taking over Arbil earlier this month and indirect help in sweeping through the rest of Kurdistan, Mr Barzani has attempted to distance himself from the Iraqi regime.

Mr Saddam has tried to consolidate the new alliance with Mr Barzani's Kurdistan

Democratic Party by lifting a five-month blockade, declaring an amnesty in northern Iraq and offering to maintain autonomy for the Kurdish north. But Mr Barzani has kept an eye on his own Kurdish constituency and has taken into consideration criticism of his new friendship with Saddam from among his supporters. He issued his own amnesty to the defeated Patriotic Union of Kurdistan and said he would allow the PUK to operate freely as a political

party. "We have said that Iraq's recent assistance was a one-off deal and there is no agreement with the Iraqi government," said a KDP official yesterday. "We have some hard questions to ask the US: we would like to know what the US policy is and the position on foreign interference in the region, especially Iranian."

The KDP maintains that the PUK is backed by Iran. It is also the excuse used by Mr Saddam in intervening to back the KDP in the inter-

Kurdish fighting.

Analysts said that Mr Barzani was exploring ways to reduce his reliance on Baghdad and was looking for US acknowledgement of his new predominance in northern Iraq. But a US official made clear that a meeting between Mr Barzani and US officials should not be seen as US recognition of KDP control over the Kurdish north.

Mr Ibrahim Karawan, senior fellow for Middle East security at London's International Institute for Strategic

Studies, said Mr Barzani was hedging his bets. A meeting with the US, he said, could be a warning to Saddam not to overplay his hand.

US President Bill Clinton yesterday denied reports that he was reconsidering sending US troops to Kuwait as part of the military build-up in the Gulf to maintain pressure on Iraq. Mr Clinton said he signed deployment orders on Monday night but he did not specify when US forces would arrive.

## UN fears famine in Kurd enclave

By John Barham in Sulaimaniya, northern Iraq

The United Nations World Food Programme has put out an "urgent appeal" for international food donations to avert a potential humanitarian disaster in Kurdish northern Iraq this winter.

UN officials yesterday said this year's harvests were poor, causing shortages and raising prices. The UN says it needs donations to provide for about 600,000 people, about one-sixth of the Kurdish enclave's population.

UN economists say wheat output in the enclave, traditionally Iraq's breadbasket, fell 40 per cent this year to 240,000 tonnes, leaving a shortfall of 160,000 tonnes.

Ironically, farmers cut production because they expected food prices to fall once Iraq's President Saddam Hussein reached agreement with the UN allowing Baghdad to import food and humanitarian supplies by exporting \$2bn worth of oil every six months.

Bad weather also damaged crops and fighting between Kurdish groups interfered with harvests. The UN shelved its oil-for-food agreement with Baghdad, after Mr Saddam sent troops to help the Kurdistan Democratic Party (KDP) defeat the rival Patriotic Union and take control of the region.

The UN warned that food shortages could further aggravate already serious malnutrition.

The exodus of international aid organisations is further undermining relief efforts. Many organisations evacuated their staff, fearing for their safety after Iraqi government troops entered the region. Aid agencies are virtually the only providers of basic services.

Although Iraqi troops do seem to have left, the KDP leadership is struggling to convince agencies to return. But their local staff remain terrified of reprisals by government agents.

Package of measures unveiled to open capital markets, boost savings and reform pension funds

## Israel acts to restore investor confidence

By Judy Dempsey in Jerusalem

Israel's finance ministry yesterday unveiled a sweeping package of measures aimed at opening up capital markets, boosting domestic savings and reforming state and private pension funds.

If agreed by the government, which has put economic liberalisation high on its domestic agenda, and pushed through the Knesset, the measures could be the first step towards restoring public confidence in the markets.

In July, small investors redeemed over US\$1bn from the government, or savings funds when bond prices fell and real interest rates remained high.

They could also mark the first move towards greater scrutiny and accountability in the management of pension and other funds.

"The reforms could have a crucial impact on the capital markets and long-term savings," said Mr Gad Haker, head of the international department at

Satucha Securities and Investments.

"It is time there was more transparency in the way the markets are operated and how small investors are advised."

As a first step, Mr David Brodet, director general of the finance ministry and chairman of the special

"It is time there was more transparency in the way the markets are operated"

committee for capital markets, recommended significant tax cuts on interests on bonds, dividends and savings.

These would include reducing the tax rate on interest from tradeable bonds from 35 per cent to 10 per cent, and on dividends from 25 per cent to 15 per cent. The tax on foreign securities would be cut

gradually from 35 per cent to 25 per cent, and later, to 20 per cent.

A second plank of the reforms would entail the introduction of tax exemptions for interest on 10-year or longer-term savings while short-term and medium-term savings would carry an interest rate of 5-10 per cent.

The idea is to pre-empt a repeat of the massive redemption of the provident funds over the past two months.

"The tax incentives will be focused on the retirement savings. There will be no more tax incentives for provident funds that are not for retirement," said Mr Brodet.

A third phase of the reform, and probably the most controversial, politically, would entail reducing government subsidies to pension funds. Such subsidies amount to a fixed return - often 2½ times the pension contribution. These have provided fund managers with little incentive to enter the



Premier Benjamin Netanyahu (right) discusses the Syrian troop build-up with his military adviser Gen Ze'ev Livan

## Netanyahu firm on Syria troops

By Judy Dempsey in Jerusalem

Israel will not be put under pressure by Syria's decision to redeploy 12,000 troops in Lebanon near the Golan Heights, Mr Benjamin Netanyahu, Israel's prime minister, said yesterday.

"What Syria is trying to do is to put psychological pressure on Israel and on its new government," Mr Netanyahu declared after addressing the foreign affairs and defence committee of the Knesset (parliament).

Israel was "taking seriously all the signs on the ground. I am convinced we are taking all the necessary measures to defend the security of the country and its citizens," he added.

His remarks coincided with moves by Washington to restart the peace negotiations which had been broken off by the former Labour government following a wave of bombings in Israel earlier this year.

Mr David Ross, a US envoy, arrived in Cairo yesterday, where he is expected to hold talks today with President Hosni Mubarak of Egypt. He will later travel to Gaza and then to Israel.

Mr Netanyahu, whose Likud government was elected last May, met Mr Yasser Arafat, president of the Palestinian authority, earlier this month, the first meeting since the elections.

However, Mr Netanyahu has been reluctant to give any timetable for resumption of the peace talks, or more specifically, has not committed his government

to withdrawing Israeli troops from Hebron as agreed in the interim peace accord signed by the previous government and the Palestinians.

This issue, as well as the future of the peace negotiations, is likely to be high on the agenda when Mr Netanyahu makes his first official trip to Europe next week.

He is due to hold separate talks with Chancellor Helmut Kohl of Germany; Mr John Major, the UK prime minister, and France's President Jacques Chirac.

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## NEWS: THE AMERICAS

## Florida 'triumph' for tobacco groups

By Richard Tomkins  
in New York

The US tobacco industry was yesterday claiming a court triumph after a Florida circuit judge dealt a blow to the state's attempts to sue the industry for the recovery of healthcare costs.

The judge dismissed 15 of Florida's 18 claims against US cigarette makers and ruled that no claims could be brought for costs incurred

before July 1994, when Florida passed a statute making it easier to sue the industry. Significantly, the judge also ordered the state to produce the names and addresses of every individual involved in the remaining claims within 30 days, opening the way for the industry to challenge the validity of each smoker's case.

RJ Reynolds, the tobacco subsidiary of RJR Nabisco, said: "This is a clear demon-

stration that each party to a lawsuit, no matter how politically unpopular their case may be, is entitled to fair and equitable treatment under the law."

Tobacco stocks rose sharply in response to the ruling, which came late on Monday evening. At lunchtime yesterday Philip Morris's shares were up \$1 at \$93 and RJR Nabisco's were up \$1 at \$27.

Earlier, shares in Britain's

BAT Industries closed 23½p up at 462½p in London on the news that the judge had dismissed the UK holding company from the claims. But BAT's US arm, Brown & Williamson Tobacco, will remain a defendant in the case.

Florida is one of 13 US states suing the tobacco industry for the cost of treating smoking-related illnesses under the Medicaid public assistance programme.

The state is seen as most likely to succeed in its suit as it has passed legislation that strips away many of the industry's traditional defences; for example, the argument that smokers knew the risks they were taking but chose to smoke anyway.

In June the Florida supreme court issued a ruling on the lawsuit but left it to the lower court to determine procedure. Yesterday's

interpretation by the circuit court turned out to be more favourable to the tobacco industry than expected.

The case will now proceed towards a trial due to begin on August 4 next year. In the meantime the tobacco companies seem likely to examine individual smokers' cases and seek to show that illnesses were wrongly attributed to smoking or that money was wasted on inappropriate treatments.

## TV debates to exclude Perot

By Nancy Dunne  
in Washington

The bipartisan Commission on Presidential Debates yesterday recommended that Mr Ross Perot, the Texas billionaire presidential candidate, not be included in the television debates between President Bill Clinton and former Senator Bob Dole, his Republican challenger.

The recommendation is considered a victory for Mr Dole who, trailing the president by 15-20 points in most polls, sorely needs good news. The debates are the last key events before the November elections. Republicans feared Mr Perot's participation would give him a larger share of the anti-Clinton vote.

A spokesman for Mr Perot's Reform party called his exclusion a "travesty" and warned that Mr Perot might challenge the commission's decision in court.

The commission's stan-

dards for third party participation require that the candidate has a "reasonable" chance of winning. Support for Mr Perot, who won 19 per cent of the vote in 1991, has been running at 8 per cent or less in most polls.

The campaign can decide to ignore the commission's recommendations. In talks between Republican and Democratic representatives, the Clinton camp has been urging Mr Perot's participation in at least the first debate. The Dole camp has refused.

The US industrial output increased 0.5 per cent in August after a slim 0.1 per cent gain in July, according to figures released yesterday by the Federal Reserve. Earlier reports from Washington. Businesses were reported to be operating at 83.5 per cent of their capacity last month, up from 83.3 per cent in July. The figures were in line with expectations.

## Ford union deal challenges GM

UAW accord breaks US motor industry mould, writes Richard Waters

The stage has been set for a renewed showdown in the US between General Motors and the United Auto Workers union after a three-year labour agreement reached between Ford and the union late on Monday.

To judge by the terms of that agreement, GM will be under pressure to make substantial concessions to its 220,000 UAW workers or face another crippling strike like the 17-day stoppage at two of its parts plants in Dayton, Ohio earlier this year. Once again, it seems, a dispute involving the country's biggest manufacturer could bring the politically sensitive issue of job security under the spotlight.

Ford's deal with the union, concluded nearly 48 hours after the previous contract had expired, was meant to set a pattern for the other US car and light truck makers. That, at least, has been the tradition in the US motor industry. But the divergent fortunes of the Big Three - GM, Ford and Chrysler - will make that difficult this year.

Ford's agreement with the UAW is subject to a vote of members and details have yet to be released officially. At its heart, though, are two clauses which break the mould of previous labour contracts in the US motor industry.

One is a job guarantee under which the company has said it will keep 95 per

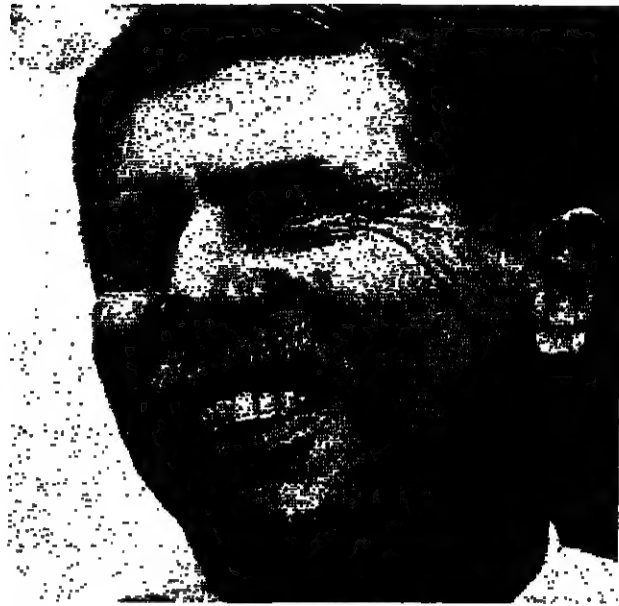
cent of its existing 105,000 UAW jobs open. New workers will be hired when existing ones retire.

"The principle involved is quite different from anything we have seen in a major labour agreement in the US," says Mr Dale Brickner, a professor at Michigan State University. Other unions have tried to win such guarantees, but failed.

The practical impact of Ford's guarantee is difficult to discern. If, to calculate the 95 per cent, it excludes new workers who are in the "grow-in" period before assuming full UAW rates, then the company would in effect be able to cut its workforce by up to 10,000 people, says Mr Brickner. Also, the company is believed to have secured an override clause allowing it to break the guarantee in exceptional economic or financial circumstances.

The second ground-breaking clause will allow the company to pay a lower rate to workers in parts plants than to those on vehicle assembly lines, creating a new two-tier wage structure. The immediate impact is mitigated by the fact that it will apply only to new parts workers, not existing ones. And Ford is believed to have agreed to a formula that would make wages of the new workers comparable with the highest paying jobs in independent parts suppliers.

In an industry where "out-



Alex Trotman, Ford chairman, at a news conference called to announce the United Auto Workers' deal

sourcing" of parts jobs has become a sensitive issue, this new two-tier wage structure represents something of a breakthrough. It seems to allow the company to reduce its costs in future while enabling the union to prevent the steady seep of jobs to non-unionised suppliers.

It was this issue that prompted the strike earlier this year which brought the company's assembly lines to a halt.

Not surprisingly, the parts companies that have benefited from outsourcing are cautious about the implica-

tions of the agreement.

Speaking on Monday, before the Ford deal was reached but when talk of job guarantees was already in the air, Mr Woody Morcott, chairman of parts company Dana, said: "Most suppliers would see more downside in this, rather than upside." He added, though: "I'm not sure this will be a watershed", since the car makers' previous agreements with the union already required them to maintain the pay of laid-off workers, even if their jobs were not kept open.

While the view on Wall

Street yesterday was that Ford could live with its new agreement without facing substantially higher costs, things look different for GM.

The company, with 240,000 UAW workers, is still only half way through the overhaul under way since the early part of the decade: its labour costs remain higher than its main competitors and it makes far more of its parts in-house than Ford or Chrysler.

The company still needs to reduce its workforce by as many as 70,000 to make itself fully competitive, says Mr Dave Cole at the University of Michigan. As it happens, the opportunity to do so is about to arrive: the company is in the process of introducing a new range of models which would allow it to build vehicles with less labour input, says Mr David Healey, an analyst at Burnham Securities.

The two-tier wage structure for parts plants would do GM little immediate good, given that it is in the process of scaling back - rather than expanding - its parts-making business. And the guarantee clause would put a block on its efforts to "downsize".

It was not surprising, therefore, that industry analysts chose to see Ford's agreement with the UAW in the light of its competition with GM. As Mr Healey summed it up: "They have screwed GM more than they have screwed the union."

## Chrysler faces Canadian ultimatum

By Bernard Simon  
in Toronto

Chrysler's Canadian subsidiary was locked in labour contract talks yesterday with the Canadian Auto Workers union, which had threatened to strike if a deal was not reached before expiry of an existing contract at midnight last night.

Yesterday's talks centred on wages and benefits. The CAW earlier in the day claimed a victory on the contentious issue of contracting work to outside, usually non-unionised, parts suppliers.

According to the union, Chrysler agreed that any jobs lost to "outsourcing" at its Canadian plants would be replaced by new jobs, provided the company was making a profit.

Chrysler has a unionised workforce of about 13,000 in Canada. A minivan plant in Windsor, Ontario, and a car assembly line in Bramalea, north-west of Toronto, contribute about a third of the company's North American output.

The CAW hopes any deal on outsourcing with Chrysler will set a pattern for forthcoming contract talks with General Motors and Ford, which are expected to make contracting-out a cornerstone of their demands from the union.

## Calpers neutral on fraud plan

By Christopher Parkes  
in Los Angeles

Calpers, the powerful Californian state employees' pension fund, has elected to stay out of the debate over Proposition 211, a popular initiative designed to make it easier for investors to sue for securities fraud.

The fund's investment committee voted narrowly on Monday to take a neutral stance, after deciding there was "no overwhelming evidence" to sway its 13 members to oppose the law, according to a fund official.

The 7-to-6 decision reflected divisions over the issue which has pitted businesses, senior politicians, stock exchanges and accountancy firms against the lawyers and consumer groups which back 211.

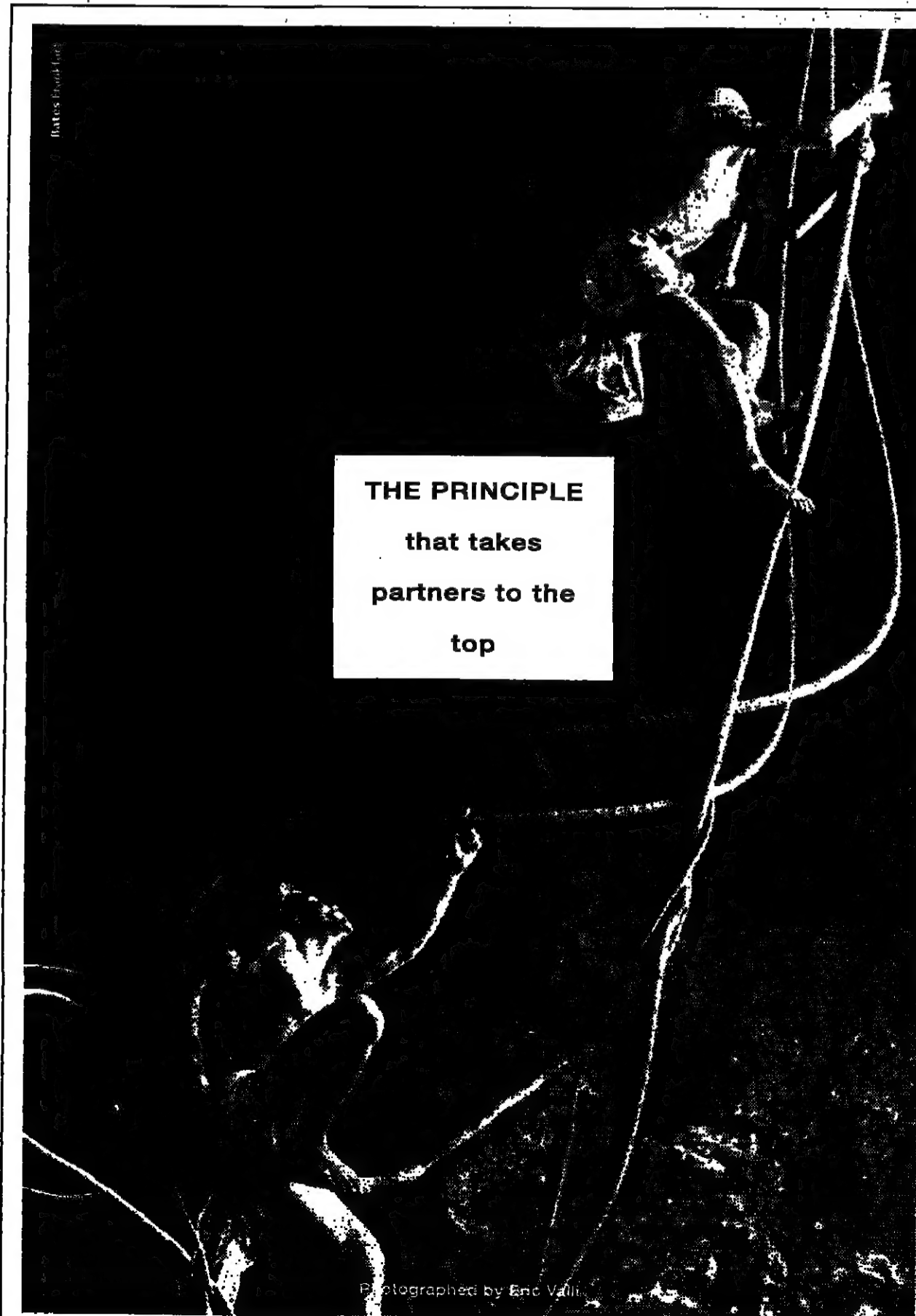
The committee had been

subjected to "a considerable amount of lobbying," the official said, and noted that a preliminary vote on the issue had resulted in a 7-to-6 majority in favour of opposing the initiative. The position was reversed following discussion and a formal vote.

Opponents say the proposal, which will pass into state law if approved by voters in November, will make California a "magnet" for frivolous lawsuits against companies throughout the US and beyond.

Calpers' decision was in keeping with its apolitical status as a state agency, an official said. According to a discussion document distributed to committee members, 211 offered no significant benefits to Calpers and presented risks to the fund's investment strategy.

Editorial Comment, Page 15



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## China, Japan strengthen trade ties

By William Dawkins in Tokyo and Laura Tyson in Taipei

China and Japan yesterday demonstrated their refusal to allow a territorial spat over disputed islands in the East China Sea to disturb the task of building trade and business relations.

A Japanese delegation of more than 100 senior executives arrived in Beijing yesterday to meet senior officials to discuss trade and foreign investment policies.

That the annual business mission from Tokyo to Beijing is going ahead as planned is a reflection of the growing importance of economic relations. Japan has traditionally been China's largest trade partner and China became Japan's second largest trading partner for the first time last year.

Then, exports from Japan to China rose by 17 per cent to \$21.9bn, while Chinese exports to Japan rose by 30 per cent to \$35.9bn, according to the Japanese external trade organisation. China is the largest of the few countries with which Japan runs a trade deficit, nearly \$1bn last year, a consequence of its reliance on cheap Chinese domestic electrical goods, textiles, food and raw materials.

The top issue on the mission's agenda is the Chinese government's plans for a high speed train, to link Beijing and Shanghai at an expected cost of \$5bn. Japan is keen that its Shinkansen bullet train system should be chosen rather than French or German alternatives. Japanese involvement in the modernisation of Chinese agriculture is also expected to be discussed.

The territorial dispute is over the Diaoyu islands. Beijing recently issued a stiff warning after an ultra-nationalist youth group restored a lighthouse on one of the islands.

Taiwan is also involved. It

Mr Lawrence Summers, the US deputy treasury secretary, yesterday praised Taiwan's commitment to trade and financial market liberalisation but said there was "some way to go" before conditions for joining the World Trade Organisation were met, writes Laura Tyson in Taipei.

Mr Summers said more work was needed in several areas including reform of the state alcohol and tobacco monopoly, greater access for foreign vehicles, national treatment for services including legal and financial services and improved access for agricultural products.

challenges Japan's claim to sovereignty over the islands and has also protested about the restoration of the lighthouse. The provincial assembly based in Taiwan's central city of Taichung yesterday voted to impose a ban on Japanese goods and services because of the dispute.

The boycott, however, only covers contracts issued by the provincial government, which administers three quarters of the island's territory excluding Taipei and Kaohsiung cities. While island-wide procurement of goods and services from Japan is significant, the largest projects are run by the central government so the impact of the sanctions will probably be limited. Major infrastructure projects such as a high-speed railway between Taipei and Kaohsiung, road construction and airport expansion projects will not be affected.

The issue of trade with Japan is politically sensitive in Taiwan because of Japan's persistently high trade surplus. Bilateral trade amounted to \$43.5bn in 1995, with a \$17.1bn balance in Japan's favour.

## Revival of Japanese demand lifts sales of industrial robots

By Frances Williams in Geneva

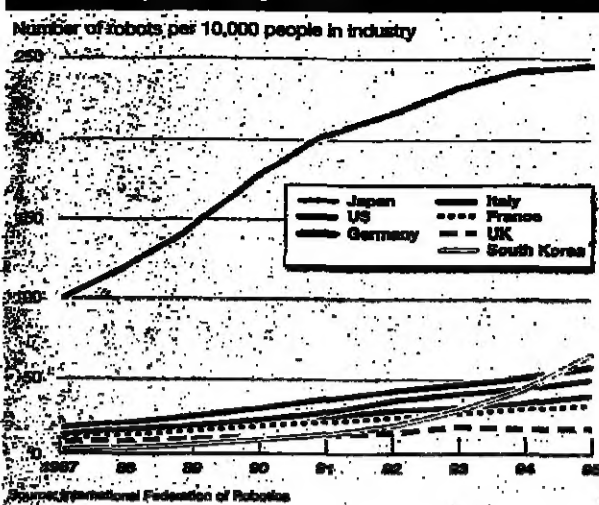
Worldwide sales of industrial robots surged by more than 25 per cent last year and are predicted to grow by a further 20 per cent in 1996, according to the latest annual survey compiled by the United Nations Economic Commission for Europe and the Stockholm-based International Federation of Robotics.

Sales are expected to rise by 15 per cent a year for the rest of the decade, bringing the world stock of industrial robots to more than 1m by the end of 1999. This represents an increase of more than half from December last year when the stock stood at 650,000 units.

Japan, which now accounts for almost 60 per cent of the world's robot stock, will still have roughly half by the turn of the century.

Of the remainder, just under 100,000 will be in the US, 76,000 in Germany, 38,000 in Italy, 17,000 in

Robots: Japan is way ahead



France and 11,000 in Britain. Robot sales last year jumped by 26 per cent to 75,500 units worth some \$5.7bn as the market continued its recovery from the 1991-93 recession.

Sales this year are expected to top 91,000, breaking the previous record of 81,000 in 1990.

The latest boom owes much to reviving Japanese demand after a lean patch. About 36,500 new robots were installed in Japan last year, a 28 per cent increase over 1994. Some two-thirds of these represented replacement investment.

Elsewhere, demand rose by a third in the US, more

than 40 per cent in Germany and 30 per cent in Italy. Sales to South Korea, now the world's fourth largest robot market, also jumped by almost 40 per cent.

In most robot-using countries the main use for robots is welding, especially in the car industry, though in Japan and Singapore the predominant use is for assembly work in the electronics industry.

Japan nevertheless remains the biggest user of robots for making cars. For every 10,000 people employed in the motor vehicle industry last year, there were more than 800 robots in Japan, about 400 in Italy, 300 in the US, 250 in Sweden, 230 in Germany and just under 200 in France and Britain.

Japan also tops the league table for the whole of manufacturing industry, with about 250 robots per 10,000 workers.

World industrial robots - Statistics 1989-94 and forecasts to 1999 (Sales no. GV.E.96.0.28). UN sales section, Palais des Nations, CH-1211 Geneva 10, 1210.

## EU employers oppose calls to involve WTO in labour issues

By Guy de Jonquieres

Unice, the European employers' federation, has voiced opposition to US and European Commission demands that the World Trade Organisation should discuss the links between international trade and labour standards.

Unice has told EU governments that most of its 32 member organisations consider that the WTO is not the right forum for such discussions, and that international efforts to curb abuse of labour rights should be pursued in the International Labour Organisation.

Unice says most of its members "are convinced that an open multilateral trade system is the best way

to maximise the growth necessary to improve living and working conditions, and that trade sanctions would not contribute in any way to the goal in view."

Unice's views are set out in a position paper circulated ahead of an informal meeting of EU trade ministers in Dublin tomorrow which is due to discuss the agenda for next December's WTO ministerial conference in December.

The Dublin meeting, which will also be attended by Mr Renato Ruggiero, WTO director-general, is not expected to reach firm decisions. But the EU ministers' views are likely to influence the position taken by Sir Leon Brittan, Europe's trade commissioner in talks with

trade ministers of the other "Quad" powers - the US, Japan and Canada - in Seattle later this month.

Unice says that, as well as reviewing progress in implementing the Uruguay Round trade agreement, WTO members should agree in Singapore to launch preparatory work for future multilateral trade negotiations.

These should aim to reduce further tariff and non-tariff barriers and to establish "clear and binding rules" governing trade and environmental policy.

Unice calls for exploratory talks in the WTO on liberalising foreign direct investment and harmonising national customs procedures. But it says it is too early to hold substantive dis-

cussions on trade and competition policy.

Sir Leon has said the WTO needs to respond to widespread public concern by addressing trade and labour standards. But EU governments are split on the question. France strongly supports Sir Leon's stance, while Britain firmly opposes it.

Most developing countries are determined to block any WTO talks on the issue, arguing that it could provide industrialised economies with a pretext for protectionism.

Unice's priorities for the WTO Ministerial Conference in Singapore. Unice, rue Joseph II 40/Bte 4, B-1000 Brussels. Tel: 322-237 6511. Fax: 321 1445.

### WORLD TRADE NEWS DIGEST

## Cycle maker's new horizons

Hero Cycles, India's biggest bicycle maker and one of the world's largest, is launching an assault on world markets with plans to build assembly plants in Europe, Africa and South Asia - aiming to capitalise on competitively priced Indian-made components.

Hero, which has 43 per cent of India's 10m a year bicycle market, plans a \$5m plant in Kenya to make 300,000 cycles a year. It hopes to follow with a plant in Europe, most likely the UK, within six months. The group is also looking to enter South Asian markets with a third assembly plant.

Mr Rohit Chandra, group treasurer, said the aim of Hero's first foreign foray was to keep the growth of component exports at 20-25 per cent a year. Component exports to Africa, Europe and the US last year comprised 10 per cent of the cycle maker's Rs5.3bn (\$148m) turnover, on which it reported profits of Rs150m. Mr Chandra said the proposed UK plant would entail investment of around \$5m with envisaged output of 300,000-500,000 cycles. The plant would buy up to half its components from India, which would be priced competitively with Chinese-made cycle parts.

Mark Nicholson, New Delhi

## US officials acclaim car pact

US trade officials yesterday claimed success for the 1995 US-Japan agreement to open Japan's car and car parts markets to foreign producers, saying that in the first six months of this year North American exports to Japan had risen 40 per cent against the previous 12 months. The EU, which opposed the US-Japan pact, also saw its car exports rise but at a slower rate - 11 per cent during the first six months of this year.

US officials expressed concern that only 107 new dealerships for foreign cars had opened this year in Japan out of the 200 projected. However, a Toyota spokesman pointed out that 1,000 Toyota outlets were selling General Motors Cavalier model; almost 2,000 Mazda dealerships were selling cars produced by Ford and Mazda; and 800 franchise deals had been concluded between the Big Three US car makers and Japanese dealers.

The European Union, Canada and Australia will today join talks in San Francisco to evaluate results of the pact.

Nancy Dunne, Washington

## HK utility in China venture

China Light and Power, Hong Kong's dominant electricity supplier, is poised to take a 35 per cent stake in a power plant to be built in Shenzhen, the special economic zone on the southern coast of China.

The deal is part of the utility's programme of expansion outside Hong Kong. Earlier this year the company, as part of a consortium which includes Electricite de France, was given approval by Beijing to build a 3,500MW power plant in Shandong province. It also holds a 25 per cent stake in the Daya Bay nuclear plant in southern China.

Other partners in the Shenzhen plant include Kanematsu, the Japanese conglomerate that already owns stakes in infrastructure projects in the region. The project, for three 350MW gas-fired generators, is worth an estimated Yn7m-Yn8bn (\$842m-960m). Li Dechang, executive vice mayor of Shenzhen, said China Light and Power was brought in as it had more gas - from the South China Sea - than it could use and by joining the project all parties would benefit. Louise Lucas, Hong Kong

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## ALL THAT GLITTERS: The Fall of Barings

# How Nick Leeson bought friends and favour

The lingering mystery of the Barings collapse is what happened to the millions of pounds that slipped through the hands of Nick Leeson, its rogue trader on Simex, the Singapore futures exchange. In the first of four exclusive extracts from their new book, *All That Glitters*, FT reporters John Gapper and Nicholas Denton explain how Leeson gave the money away

Nick Leeson's manner was a pleasant change to the Barings traders in Tokyo with whom he dealt. When he started work in July 1992 there was at last someone at the Barings Futures desk at Simex who spoke good English and could talk callers amiably through the state of the derivatives market.

But Leeson's air of calm was deceptive. Moving to the trading floor from the back office was a much bigger change than he had imagined. In his previous job as a settlements clerk, he had dealt with problems that could be analysed calmly. On Simex, things changed all the time. The screens over his head flickered with new prices, the phones rang constantly, and mistakes were punished instantly by losses.

Pressures like this were common at Barings Securities - the stockbroking arm of Barings. They could lead to mistakes as traders bought or sold shares or bonds. It was easy to get confused and end up with more than had been ordered by customers. Barings Securities usually dealt with left-over contracts by putting them in what was called a suspense account, where they could be held until it was decided what to do with them. Salesmen might be able to place them somehow. Otherwise, the firm would have to sell them again, bearing a loss from any price movement in the meanwhile.

Leeson's main job was to fill orders for customers such as banks and hedge funds. The orders largely came through Barings' futures and options sales desk in Tokyo, run by Mike Killian. Killian, a 39-year-old American, was wiry, with a weathered face and warty nose. He ran the derivatives sales business largely in Japan in isolation from the other Barings operations.

If Killian found himself with spare contracts on his books, he would sometimes place them in a suspense account in the hope that they would rise in value. "Come on up baby, come on up," Killian and fellow futures and options salesmen would mutter, as they watched prices change on their trading screens.

Suspense accounts were also used to absorb losses on trades. Simex was a small and not very liquid exchange. An investor placing an order through Barings could easily move the price. Leeson might quote a customer one price, but in fact have to pay more if futures prices moved in the pit as his junior trader executed the order for him.

In order to give the customer futures at the price he had promised, Leeson might have to take a small loss into a suspense account. It could be done through what was called a cross-trade. At the pit, he would signal that he was crossing futures from one Barings account to another by holding his hands crossed in front of him as if wearing a pair of handcuffs.

Leeson could buy contracts at one price, but then cross them into the customer's account at a lower one. It could not be done too drastically. Simex rules forbade cross-trades at prices that were much above or below the current market level. But there was some leeway for changing prices slightly in order to please Barings' customer.

Although the strains were obvious on the Simex floor, their effect only surfaced when trading finished, and the second half of Leeson's working day started. He would take the lift down from the fourth floor of the Overseas Union Bank building where Simex was located and head across the road to the Barings office in Ocean Towers.

But the Simex system crashed constantly, leaving delays of three or four hours in which Leeson would not know if trades agreed. If there was any discrepancy, Barings Futures had to make up the difference. If Simex records showed that Barings Futures was short of 10 futures, Leeson would have to buy 10 the next day, and place any compensating loss in 99905.

Each day, the Barings Futures computer sent four pieces of information on each account to London. But on July 3, Gordon Bowser, the head of futures and options settlement in London rang to say he did not want to be sent all the details of 99905, because the errors were straining the London office's settlements software, with which Barings had been having problems.

Leeson said he would set up another account to hold all minor errors, and send only the bill for margin payments to London. He asked Rieille Sag, one of two settlements clerks in Singapore, her lucky number. She said that eight was lucky in Chinese. The word "bat" meant both "eight" and "prosperity". Leeson set up a

new error account, which he called Account 88888.

The five eight account gave Leeson the buffer he needed. More than 200 contracts passed through it each day in the last week of July. The bill came on the final day, when Leeson had to produce monthly accounts. By then, the five eight account contained a loss of ¥11m (\$49,000). Leeson either had to write this amount off openly, or try to hide the loss somewhere.

This was a large amount to attribute to errors. There was a danger that if he declared it, London would think he was not running a very tight ship. Because Leeson was in charge of the back office, he did not have to do so. He could adjust the accounts to hide it. It was simple to shuffle ¥11m from the margin held for Barings Futures' customers at Citibank into a sub-account for five eights, and move it back two days later.

Leeson needed some calm to get on top of things, and correct the loss that he had declared in five eights. He was not to get it. The main contract in which he dealt was based on the Japanese stock market's Nikkei 225 share index. Because the Japanese government mistrusted futures trading and had imposed restrictions on domestic futures exchanges, Simex had obtained much of the trading on this index. But the Nikkei 225 had been falling for 18 months by July 1992, dropping more than 60 per cent.

On August 18, it scraped the bottom at 14,308. That day, the Japanese government disclosed

measures to prop up its ailing banks, and said it would unveil an economic stimulus package by the end of August. The index surged, pushing up to 15,268 by Thursday 20. Orders flooded into Simex from around the world.

The rush of orders created turmoil on Simex, and led to an incident that Leeson was later to classify as the start of his hidden trading in five eights. On Friday August 21, the Nikkei rose by nearly 1,000 points on expectations of the forthcoming economic recovery package.

Leeson had just taken on a young clerk called Mitsuko from a firm of local accountants. That morning, she took an order for 20 futures for Fuji Bank. She mistook it as an order to sell futures on its behalf instead. The order was passed to the Nikkei pit along with others, and was executed at the market price.

By 2.15pm, when the day's trading on Simex ended, the Nikkei was 200 points up from the level at which Barings had sold 20 futures. Leeson discovered this at about 8pm, as he sorted through the day's trading in Ocean Towers. Because Barings Futures had

When the September contract was trading at 18,000 and the December one at 18,095, a trader could sell a roll on the two for 90 points, and buy one for 100, or ¥90,000. It was expensive for customers, and a trader who could offer a better price could attract lots of business.

Leeson soon started offering far better than market prices for rolls. In the run-up to expiry, he was given a big order by Paribas, a French bank which was among Barings Securities' largest customers. First for Paribas, and then for Barings' Tokyo traders, Leeson consistently beat the rest of the market by up to 20 points per roll.

This meant that a trader rolling 100 contracts would gain ¥1m (\$40,000) by doing so through Leeson instead of another broker. Paribas was pleased with the results, and started to direct most of its orders for rolls to Barings Futures. Leeson's keen execution of rolls also came in useful in Tokyo, where it boosted the profits of Barings' traders.

Although Leeson had been seen as a good executor of orders before then, the September rolls made him stand out. "Amazing job, Nick," Ming San Lee, a Tokyo trader told him, as Leeson produced yet another keenly priced roll. Some of the traders assumed Leeson must be taking trading risks to get such good prices. He could do that by making his own rolls rather than going to the Nikkei futures pit to buy them. The Nikkei was rising sharply, which would have given him an opportunity to first buy December futures, and then wait until the price gap closed before selling September ones.

This was known as "lifting a leg" or "legging", because it involved keeping one side - or leg - of a matched contract open. It appeared to some that Leeson must be legging to be offering such prices. Richard Magides, a trader working for Barings in Hong Kong, rang Leeson to warn him of the risks of legging. "It's not worth putting your balls on the line," he said.

It cost money because December futures still had a premium over shares, and would trade at a higher price. This gave all the brokers on the Simex floor a chance to demonstrate their prowess, as they tried to achieve the transaction for their clients as cheaply as possible.

Despite the problems of the five eights account, Leeson was determined to excel in this test, the first time he had faced it. A trader could roll futures by doing the two sides of the deal - in this case, the September sale and December buy - separately. However, this meant taking a risk on the market moving between the two deals, and a less risky method had developed on Simex. The two sides of the transaction could be done in a single deal, called a "roll".

A trader could walk to the Nikkei futures pit, and buy a roll at a single price. As the early days of September passed, traders could break-even in the five eights pit making the sign for a roll, a thumb and forefinger pinched together repeatedly. The price of a roll was set by the gap in prices between the September and December contracts.

Magides knew that if the market moved unexpectedly, the price gap would widen rather than narrow and Leeson would be in trouble. What he did not know was that Leeson had a solution at hand for any trades that went wrong, leaving him with rolls that were too expensive to sell. He could dismiss them as "errors", and hide them away in the five eights account.

In his own mind, Leeson saw the good rolls as genuine, a mark of his trading prowess. The bad trades were something else entirely: just mistakes made by his floor traders. He did not acknowledge the inextricable link between the two: he was starting to siphon money out of Barings Securities into the hands of his grateful customers.

As he did so, he inflated his own reputation. Leeson had to carry out about 10,000 rolls each quarter. Most went to Barings customers, although some were for its traders. By handing out rolls at a knock-down price, Leeson in effect gave away ¥100m (\$400,000) from the 88888 account during September 1992, only his third month of trading. It was hardly surprising that he was becoming popular.

Six months later, at the March 1993 witching hour, word had spread of Leeson's powers of execution. Killian's salesmen in Tokyo started charging a fee to customers who wanted to buy Leeson's rolls. Fuji Bank, Chemical Bank, and Dean Witter were all keen to buy, and his prices were so out of the ordinary that they were charged a fee of ¥2,500 (\$11) per roll.

By consistently giving money away, Leeson was digging a hole for himself in Account 88888. He convinced himself that he could gamble his way out of it by holding futures in the account that would gain money on market movements. For nearly a year



Leeson at Simex: He used cross-trades - signalled here - to hide losses.

after he started his deception, his tactic failed. But in June and July 1993, he almost escaped. As the Nikkei market stabilised in the late spring, Leeson managed to gamble his way back to break-even in the five eights account. By July, he had retrieved the money he had squandered. One Friday night, he and Lisa had a barbecue at home with friends. Leeson confessed to his wife that he had been through some problems at work, and at one point had been fired. But it was now all right - he had made up his losses.

She was shocked, and urged him not to take any similar risks again. But he could not kick the habit of using Account 88888 without disclosing an uncomfortable truth to those around him: he could only conjure up his amazing trades by using it to take losses. Without it, there would be little praise and recognition. He soon started to use 88888 again.

The pressure on him quickly escalated. By autumn 1993, losses in five eights had built up once more. In the three months since his failed attempt to stop, he had buried losses of \$5.5m. Leeson urgently needed to find a new way of generating cash to cover the hole in the accounts. The solution bedevilled his experience as a settlements clerk.

Leeson invented a trading operation which he could carry out from Simex that appeared to require huge flows of cash from London. This scheme - which became known as "switching" - later came to play a central role in Barings' collapse, because it allowed Leeson to appear to be generating risk-free profits while actually draining the bank further and further into trouble.

Switching relied on the fact that contracts on the Nikkei 225 stock market index were traded both in Osaka in Japan, and in

Simex at Singapore. It had struck Barings' Tokyo traders before that there might be profits in switching orders between the two, to exploit any slight differences in price that might arise. By buying cheaply in one market, while selling the identical contract in the other, a trader might be able to make a small amount on each trade, a process known as "arbitrage".

In the spring of 1992, Fernando Gueller, a derivatives trader working for Barings in Tokyo, had tried to arbitrage gaps between prices on Osaka and Simex. But although he had made small profits, he had been badly caught one day when one market moved against him.

For an honest trader, the profits were too small for the risks. But Leeson had another reason to make switching appear worthwhile. Simex had tried to encourage arbitrage by allowing firms with contracts which matched on the two exchanges to net them off against each other before depositing the cash collateral known as margin. No-one in London knew this rule, and Leeson kept it quiet from Gueller.

This gave Leeson an opportunity. He could build matched positions on Simex and Osaka, and demand a large amount of cash from London to pay margin. However, the netting rule would allow him to put some of the cash on one side. Instead of depositing it with Simex, he could retain it at Citibank in Singapore, and fill the hole in Account 88888.

But Leeson could only run such a fake operation if it appeared to his bosses in London to be making profits. In November 1993, as he stepped up his switching activity to draw in cash for Account 88888, he distracted attention by manufacturing profits. Leeson placed ¥750m (\$4.5m) of apparent profits into the accounts of Barings Securities in Japan in November, taking compensating losses into five eights. The Tokyo traders were impressed at his skills, although it was hard to see how he was making so much money. When Gueller tried to explain why at a staff meeting in early December, he trailed off awkwardly.

Leeson ended 1993 with losses of ¥4.5bn (\$28m) in Account 88888. London was unaware of the losses, since Account 88888 was still concealed. Indeed, Leeson's operation was scarcely visible from the commanding heights of Barings' London office. That was about to change - but in the most dangerous possible way.

TOMORROW: Where did the conspiracy theory come from?

*All That Glitters* is published in the UK by Hamish Hamilton, £20. It can be ordered from FT Bookshop: Freecall 0500 418 419 or +44 181 324 5511 from outside the UK (free p&p in UK)

## Chameleon: Leeson's secret life



Leeson's secret life was a complex web of deception and manipulation. He used his position as a trader to build a reputation for skill and reliability, while secretly using his access to the firm's accounts to gamble and hide losses. His actions led to the collapse of Barings, one of the world's oldest and most respected financial institutions.



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## NEWS: UK

## Churchill's vision of Europe recalled

By Quentin Peel in London

Mr Malcolm Rifkind, the British foreign secretary, will today attempt to revive a positive view of European integration as a partnership of nations, not a United States of Europe.

On the 50th anniversary of Sir Winston Churchill's speech in Zürich, when Britain's wartime prime minister first presented his vision of European reconciliation to heal the wounds of the second world war, Mr Rifkind will use the same city to launch his appeal for a flexi-

ble European Union. At the same time he will throw his weight behind the drive for the enlargement of both the North Atlantic alliance and the European Union to central and eastern Europe, setting 1999 as the target date for the first new members of Nato. The first wave of EU enlargement should follow "as soon as possible after that", he says.

His speech to a Churchill commemoration conference will amount to a ringing endorsement of the achievements of the EU and Nato, likely to anger some of the

governing Conservative party's most passionate Eurosceptics.

He will also praise Germany, seen by the Eurosceptics as the architect of excessive European integration, as the embodiment of Europe's "spirit of reconciliation", and as symbolising "the re-creation of our European family".

He will stop well short, however, of committing himself to further big steps towards EU integration, casting doubt on the whole project for economic and monetary union.

He will also make an urgent plea for flexibility in EU membership to

be defined with extraordinary care if the EU is to remain united.

In a text published yesterday in London he says: "Flexible arrangements should not be imposed against the wishes of some member states."

"If monetary union goes ahead, the European Union will be divided into two groups of members for the foreseeable future, regardless of any decision by the United Kingdom to participate in a single currency or not." Around half the member states, and all the 12 applicant countries from central and

eastern Europe, would be unable to meet the convergence criteria for Euro "for many years... Such a divided Europe was not what the founding fathers had in mind."

He will insist, however, that when Sir Winston proposed his vision of a "United States of Europe" in his Zürich speech, he did not see Britain as a full member, either. Finally, Mr Rifkind says, Sir Winston described Britain, the US and the Soviet Union as being "the friends and sponsors of the new Europe", rather than its full members.

## UK NEWS DIGEST

## Public spending 'running high'

Government borrowing in August outstripped last year's levels, casting fresh doubt on the public sector borrowing target and on tax cuts in the national Budget to be announced in November. The Office for National Statistics said the government borrowed £5bn (\$7.8bn) last month, excluding privatisation proceeds, to cover the shortfall between spending and tax revenue.

This was up on the same month last year and was higher than City of London economists expected. Lower value added tax revenues, which were about £1bn below levels in the same month last year, were blamed for the revenue shortfall. Including privatisation proceeds, the public sector borrowing requirement was £4.5bn in August.

This left the PSBR in the first five months of the current financial year at £13.4bn, below the £16.7bn recorded at the same stage last year.

The Treasury insisted that the government was still on track to meet its PSBR target for the whole year of £27bn but some economists remain unconvinced.

Graham Bostley

## WATER INDUSTRY

## Union supports French takeover

Unison, the public services union, yesterday stepped into a controversial water takeover battle by endorsing a proposed joint bid for Mid Kent Holdings by two French companies.

Mr Bob Brandley, senior regional officer for Unison in the south-east of England, said Unison supported the proposed takeover bid by General Utilities and Saur because, unlike Mid Kent, they recognised unions.

Mr Brandley said his members, who included about 80 of Mid Kent's administrative staff, would feel more secure with French owners in spite of the fact that a takeover of Mid Kent would involve reductions in the number of its white collar staff. The proposed joint bid is currently being reviewed by the Monopolies and Mergers Commission.

Lyle Boulton

## INFORMATION TECHNOLOGY

## Western skills shortage warning

The IT industry faced a growing skills shortage, delegates at the International Data Corporation annual Information Technology Forum in Paris was told yesterday. Mr Peter Rowell, chief executive of Regent Associates, the UK-based mergers and acquisitions group suggested that countries such as India, the Philippines and eastern Europe, which had large pools of skilled but relatively low-cost labour, should benefit as programming in the west shifted offshore.

Mr Rowell also warned of an imminent shake-out among Internet access providers - specialist companies which provide connections to the Internet. "I don't think there will be many Internet access providers left within one or two years," Mr Rowell said. Eventually the market would be dominated by the traditional telecommunications companies such as British Telecommunications, he said.

Paul Taylor

## COMPUTER SERVICES

## US group wins courts contract

The contract to supply computer services to all county courts and Crown Court centres in England and Wales has been awarded to Electronic Data Systems, the US-based computer services company - under the government's private finance initiative. The contract is estimated to be worth between £20m (\$31.2m) and £25m to EDS over seven years.

Robert Rice

## Inventing ways to beat rival producers

By Peter Marsh

A novel system for packaging lipsticks and a technique for "recycling" old machine tools were among the winners at last night's achievement awards backed by the Department of Trade and Industry and the Engineering Council, the main promotional body for qualified engineers.

The manufacturing industry awards, organised by Miller Freeman, a publishing company, have been handed out for the past three years and are intended to foster innovation.

Among the other winners in 17 categories of awards were Jaguar for a production line in the Midlands town of Coventry for its XK8 car, instrument maker Celsis for a hand-held device to check for contamination in restaurants and food shops, and Pace Micro Tech-



All wrapped up: Michael Freeman, the chairman of Turpins Packaging Systems, with his latest award-winning machines

nology, an electronics company, for satellite receiving equipment.

The winner of the award in the category for packaging systems was a machine for putting plastic sleeves on cosmetics, food and other consumer goods at the rate of about 250 a minute. It was developed by Turpins Packaging Systems, based in Clacton-on-Sea, Essex.

Such sleeves have been particularly suited for food

products where the maker wants to prove to consumers that the items have not been tampered with.

Mr Miles Freeman, chairman and owner of Turpins, has been awarded about 70 patents for packaging inventions in the 30 years he has been running the company. "But patents don't count very much; in this business you've got to be first and fast to keep ahead of the competition," he said. His

company employs 60 people and has annual sales of about £3m (\$4.68m).

Johnson Matthey, the metals company, uses the systems for shrink-wrapping gold bars to stop them getting scratched in transit between vaults.

The award in the factory equipment category went to Swiftlivel, a Liverpool company which sells £40,000 machine tools made partly from "cannibalising" com-

ponents from redundant tools.

The company, set up in 1992 by Mr Philip Wilkinson, uses as raw materials machine tools dating from the 1950s and produced by Brown & Sharpe, of the US. These machines are purchased from scrap yards and machine tool dealers for about £600 each. The company has a staff of seven producing annual sales of about £1m.

## China is 'most attractive emerging market'

By William Lewis in London

UK companies see China as the most attractive emerging market to invest in but remain unsure about Russia, a survey of executives has found.

China has 25 times more foreign direct investment than Russia.

A survey of 100 executives working at 600 of the largest public companies in the UK commissioned by Control Risks Group, the political

and business risk consultancy, also shows that Nigeria is seen as the least attractive emerging market.

Survey participants were asked to judge the prospects of 40 emerging economies and placed political stability and security at the top of their list of concerns.

Overall more than 75 per cent of UK companies with international operations are investing in emerging economies. India was judged to be the most "promising" mar-

ket for the future, with 80 per cent of participants forecasting increased opportunities over the next five years.

Two-thirds of survey participants said they favoured some form of local partnership when investing in emerging markets, while only 12 per cent said they preferred to invest alone.

However, companies said fraud and criminal activity carried out by partners was a major cause of concern. Mr David Battman, head of

research at Control Risks, said: "Many companies still face considerable challenges on at least two fronts: adjusting to often ambiguous business and political environments and combat-

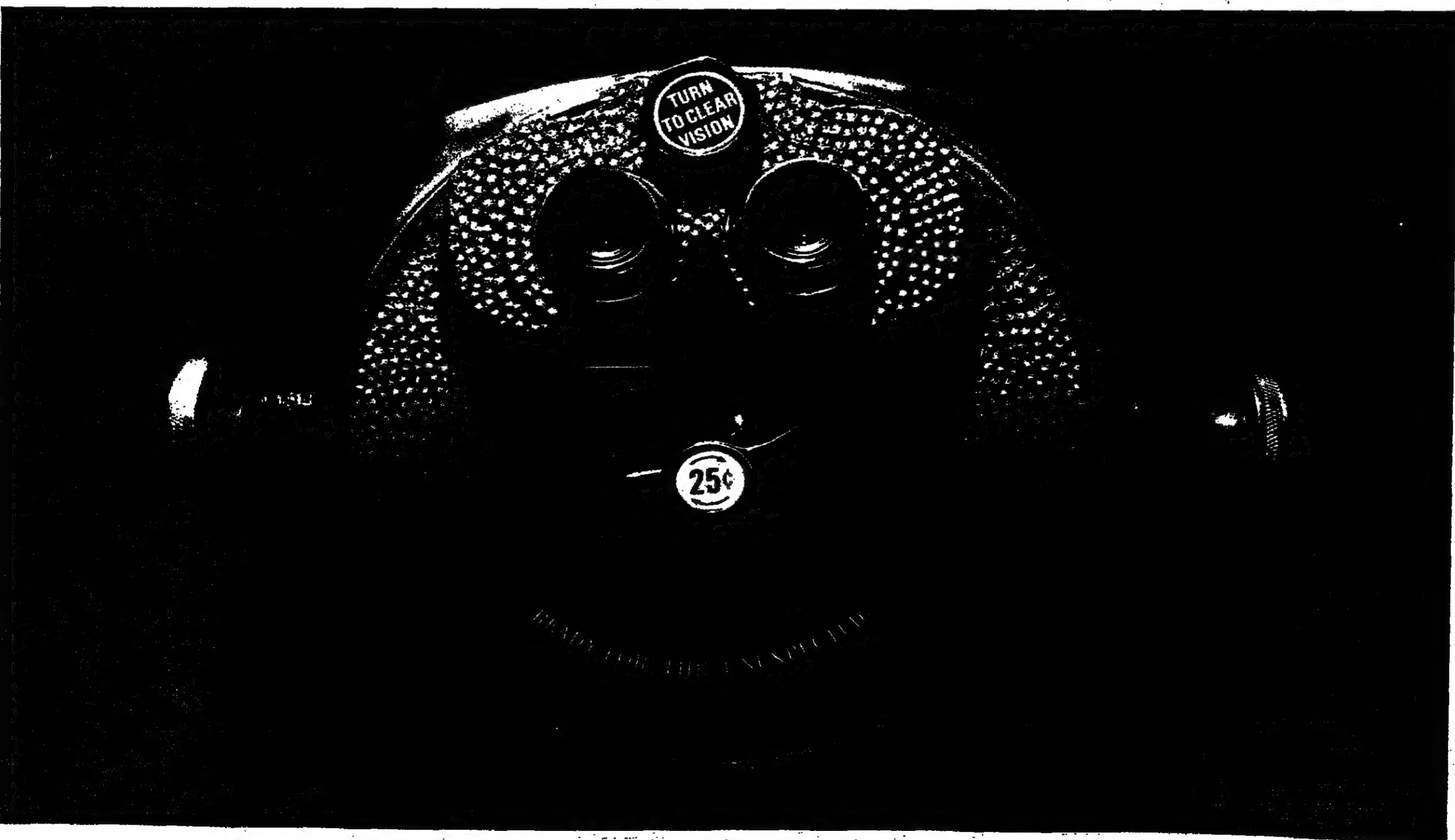
ing problems of corruption and organised criminal activity."

Mr Battman said that ahead of the recent Russian presidential elections "a number of Control Risks' clients operating in Russia found their local associates

behaving increasingly strangely". This behaviour ranged from demands for major credit extensions to "prolonged and unexplained absences from Russia".

Control Risks said this behaviour was influenced by "the jockeying for patronage and influence in anticipation of June's presidential elections".

However, UK companies said they believed opportunities would increase in Russia over the next five years.



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it from a slightly different angle. They have pretty clear expectations about their company's financial strength, sustainable high earnings power and development of share-

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pass traditional insurance solutions? Our investors know we are committed to them - after all, we're investors ourselves, to the tune of \$ 65 billion. Our customers know we are

committed to them; since managing and minimising risk is our vocation. So being ready for the unexpected obviously is the best way to meet all our partners' expectations.

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## International rescue for car components

supply industry which counts for the lion's share of the cost of a motor car."

**Richard Wolffe**

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## BUSINESS AND THE ENVIRONMENT

Improved techniques and collection schemes have led to a surge in carton recycling, says Greg McIvor

## Recovery package

**D**rinks cartons rank as one of this century's most successful packaging innovations. Around 110bn liquid beverage cartons (LBCs) are produced globally each year and the number is growing fast. In Europe, the market is projected to expand by 8 per cent a year into the next decade.

But spreading waste mountains have prompted criticism from environmentalists. Only a fraction of LBCs are recycled; most are dumped in landfills or incinerated. The inability of governments, municipalities and producers to evolve effective collection systems has been the prime sticking point.

sharp rise in the proportion of LBCs recovered from Europe's household dustbins. Some 12 per cent of cartons in Europe are recycled, a proportion which is steadily growing.

A joint venture launched this year between Finland's two largest forestry companies, UPM-Kymmene and Enso, aims to recycle 70,000 tonnes of collected cartons annually to produce industrial coreboard for use as paper and textile rolls.

The collaboration, known as Coreneo, relies on imported cartons. These come mainly from Germany, the only EU state with an effective nationwide collection system, but also from Belgium and the UK.

A big advantage of recycling LBCs is the quality of the fibres; cartons contain no filler materials or colours because printing is done directly on to the thin outer layer of polyethylene.



No space wasted: the various paper mill run by Enso, which is keen to raise its environmental profile

Coreneo's plant, built at a cost of £170m (£10m), is the newest and most advanced in Europe. It operates on a "closed loop" and works like a giant washing machine. Rotating drums separate the pulped cartons from their polyethylene lining using water at high centrifugal pressure. The fibre is sieved out and reprocessed. Polyethylene and aluminium foil residues are incinerated, providing the plant's entire energy requirement.

Enso is discussing building a board machine in Germany using similar technology. The mill has also inspired moves in Finland to establish a nationwide collection system for used LBCs, a scheme which aims to recycle 20 per cent of the country's total LBC consumption within five years.

Lyn Tryntman-Gray, director-general of the Alliance for Beverage Cartons and the Environment, a Brussels-based lobbying group, says developments in recycling have been driven by Germany's proactive approach to recycling (where the proportion

fibre from cheaper sources, such as waste paper. An additional hurdle is that the high fibre content of LBCs makes them popular as fuel. In Denmark, the cartons are incinerated at municipal heating plants. In Finland, LBCs are used to fire saunas.

Tetra Pak, the Swedish company which pioneered LBCs and today accounts for almost half the world supply, says recycling has been slow to take off because of lack of co-ordination between manufacturers, local authorities and end-users.

Teresa Pressa, Tetra's director of external and environmental affairs in Europe, says the contacts are only just beginning to develop. "It is entirely new. A dialogue has never had (such) a dialogue with local authorities, and producers have never had a dialogue with waste managers. But it is happening now."

Tetra Pak believes municipalities should be responsible for collection and some funding, producers should provide additional financial backing and consumers should be responsible for waste separation. The company does not believe in participation in waste management, although it acknowledges different solutions can fit different countries. In Sweden, Tetra Pak part-owns one of the largest planned packaging recovery companies in the country's nascent recycling system.

## Light thrown on solar panel manufacturing

Andrew Baxter assesses progress towards changing production processes and reducing factory costs

**Solar spotlight**  
"About 30 per cent of what was produced here used to go straight on to a skip," says Philip Wolfe. "We needed to obtain a much higher throughput and yield."

Wolfe is managing director of High Wycombe-based Intersolar, which took over a solar panel factory at Bridgend, Wales, in 1993 and spent 18 months making it run better. After a further two years of full-scale production, its yield of functioning panels has risen to between 90 per cent and 95 per cent.

On both sides of the Atlantic, PV module producers are focusing on the details of each stage in the manufacturing process, so that the overall efficiency can be improved and product costs reduced.

Intersolar is one of Europe's largest producers of thin-film silicon panels, in which a film of silicon less than a micron thick is deposited on glass, sandwiched between layers of tin oxide and aluminium. Lasers are used to scribe lines on to the surfaces to create the connections.

The changes in equipment, and in the production philosophy, have reduced the total cost of Intersolar PV modules from about \$2.75 per watt when it bought the plant to \$2 today. The total average power from one batch of 24 panels has risen from 280W to 320W.

This will be achievable by getting 2% times as much panel area produced in a given time, and slightly increasing the efficiency of the solar cell.

Waste when wire saws are used to cut the input into wafers. "It is like a cheese grater," says John Banner, director of the NREL's Center for Photovoltaics and Electronic Materials in Colorado. "You lose less silicon by making the wires thinner. But as you do it, the potential for breaking the wire rises."

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## ARTS

Television in the US/Jurek Martin

## The politics of going local

**T**ip O'Neill, the late, great Speaker of the House of Representatives, is already in every dictionary as a quotation for once saying "all politics is local." That is true to an infinite degree when it comes down to American presidential elections and television.

One glittering example already stands out this year. Bill Clinton got saturation coverage out of a campaign manager's wildest dream - and at virtually no cost - of his brilliantly executed train ride through the Midwest en route to the Democratic convention in Chicago last month. It did not matter that reporting on the national networks was reduced to two or three arch minutes a night. To TV stations in the likes of Chichotia, Wyandotte and Kalamazoo, the presence of a president in full song was the story of the month and worth milking for all it was worth.

Oddly enough, Washington, DC, whose only real industry is politics, is just about the worst place to feel this. The capital has its resident talking heads coming out of our tubes like an army of hydras, but their sophistries

are broadcast for a national audience and available everywhere. The local problem is that this is a one party town - Democratic presidential candidates routinely get 60 per cent of the vote on the first Tuesday in November - which means there is little point in winners or losers pouring advertising or other money down a one way drain (neighbouring Maryland and Virginia are a different matter but beyond the immediate Washington suburbs, they are served by different stations.)

Still, here as elsewhere, the output of local TV news dwarfs that of the national commercial networks. The Big Three offer a half hour programme each night (reduced to 22 minutes by commercial breaks). Local stations go live as early as four in the afternoon and witter on for two or three more hours before giving way to the networks. That is

a lot of air time to fill, unless there has been a particularly gruesome serial murder, or a hurricane is passing through, or the local football team has won a game it was not expected to. Ralph Nader, running for the Green Party, reckons he can get on as often as he wants without paying a cent for commercial time and he is probably right.

Changes in technology have also made local TV much more mobile than it used to be. A mini-cam, a cellphone and a cut price air ticket can send a local TV reporter anywhere in the country - to primaries, conventions and debates - thus further reducing reliance on feeds from the networks to which they may be affiliated. The proliferation of cable channels (about 60 are available in Washington) adds to the dispersal effect, as well as adding to the daily forest of cameras and boom-mikes that

obscure candidates from their national audiences, the voting public.

If the heavyweight writing press feels it is losing its gate-keeper role of what is fit to print to the tabloids - the downfall of Dickie Morris, Bill Clinton's toe-sucking political strategist, merely being the latest case in point - the same is true in the electronic media. Once a lifting of the left eyebrow by Walter Cronkite, the retired CBS doyen, could set the tone for TV coverage, but now *Larry King Live* on CNN, small audience and all, is where news is as likely to be made.

Not that this is all bad. It may have been true that during the San Diego and Chicago conventions local stations were mostly intent on showing their cities in the best possible light but there was still room for some decent analytical reporting. And if the

local stations do not do it - and the commercial networks fear for their ratings if they devote too much prime time to politics - then there are plenty of other TV outlets to fill any void.

**P**olitical junkies, for example, set up each morning and thank C-Span. Its two cable channels are contractually obliged to broadcast live proceedings in House and Senate when they are in session and fill up time with political talk when they are not. It also covered, from gavel-to-gavel, both conventions with minimal punditocratic intervention, versus the hour a night offered by the networks, much of it devoted to "the big speeches" and its own and imported analysts. (To be fair, NBC also went into convention partnership with the Public Broadcasting Service's wholly

admirable anchorman, Jim Lehrer, and offered a far more thoughtful service to viewers than the frenetic "here I am with the Alabama delegation" CNN.) It is not easy for the old network heavyweights to accept a reduced role. One of them, Ted Koppel, anchor of ABC's *Nightline*, left San Diego in a huff proclaiming of the tightly scripted-for-TV convention "there is no news here." He may have been right but the arrogance - if only in a minor key by Paxman's standards - did nothing for the reputation of the media, if it has any to preserve.

The networks, though not, naturally, Murdoch's, are also having some difficulty coming to terms with a proposed innovation designed to allow candidates to communicate directly to the public without the intermediation of anchors or ad-men. Paul Taylor, formerly of the Washing-

ton Post and with the backing of Cronkite among others, wants them to set aside two minutes of free prime time a night in the last month of the campaign for plain talk from Clinton, Bob Dole and, perhaps, Ross Perot and even others. As of last week, he was still "in negotiations."

What TV is only too happy to accept - because they are paid for - are political commercials. There is a school of thought which believes this year's crop is less negative than 1992 or 1988, the worst year for attack advertising in living memory, but the improvements seem strictly relative. And even if some of them have been saying "vote for me" rather than simply "don't vote for him because he is a liar, thief and knave," the betting is that they will get dirtier as election day looms.

But at least there will be the televised debates - three for the presidential candidates, one for their running mates - and that can make for compelling viewing if it gets closer than it is now. Mind you, they do coincide with the climax of the baseball season where literally everything, not just politics, is local.

Theatre/Alastair Macaulay

## Dreams and nightmares

**T**he Royal Shakespeare Company would usually be simply splendid, were it not for (a) its actors (b) its directors. Most of the texts it performs are, of course, first-rate; its designs are often adequate, good, or excellent; and the problems it has with musical accompaniment (too much, too film-like, too amplified) are by no means unique to it.

The two productions now at the Barbican Centre are quite different. Adrian Noble's production of *A Midsummer Night's Dream*, a bright and bubbly affair, has been a hit since it was new in Stratford in 1984, and is now (with a new cast) enjoying a second London season, in the main Barbican Theatre, after a triumphant American tour and after being filmed. Michael Bogdanov's two-part production of Howard Brenton's modern version of Goethe's *Faust*, flashy and sour, divided opinions when new in Stratford last year, and has now arrived at the Pit.

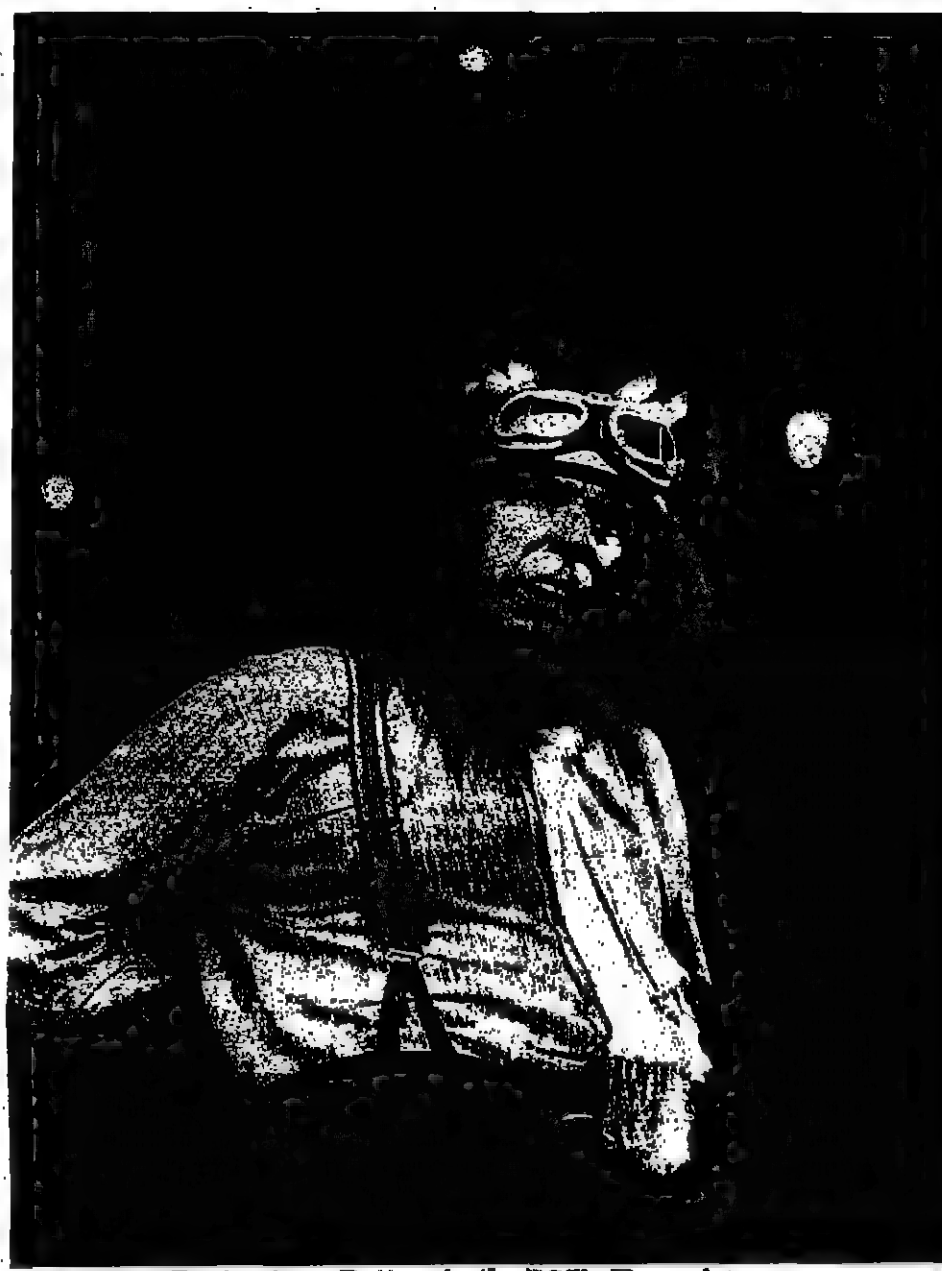
Adrian Noble, the RSC's artistic director, seems to have developed the same policy in his own stagings of Shakespeare that Anthony Dowell has with classic ballets at the Royal Ballet: make sure the designs carry the show. Fortunately for the RSC, Noble has good taste in designers. A few seasons back, Anthony Ward designed for Noble a hit staging of *A Winter's Tale* primarily memorable for its balloons; here, he has designed a *Dream* whose most haunting features are a hanging forest of glow-worm lightbulbs, doorways with out walls and a suspended bed-side umbrella. Beautiful - but these designs are a shame in themselves.

Like every *Dream* I have ever seen, this one treats Helena and Hermia, with all their heartbreak, as figures of fun. The classic quartet scene of lovers' quarrels is geared entirely to the pace of its physical comedy, with

the words only sometimes lending support. This both-ered me in 1984; it does so more now, with Katy Brittain playing Hermia with the most exaggerated try-baby voice since Sara Crowe. Rebecca Negan's too cute Helena has slightly less sincerity than when she played the role in Regent's Park two years ago. It is not that Noble has encouraged his actors to ignore the text; but he asks them to help it out so busily that it seldom has time to speak for itself.

Howard Brenton's version of *Faust* sells Goethe very short, framing the action with "rehearsal" episodes in which "the Poet" disagrees with "the Director", and Michael Bogdanov's staging sells Goethe yet shorter. The Director tries to get away with ending the action with Faust's death and final submission to Mephistopheles; whereupon the Poet intervenes and restores Goethe's ending, with Faust redeemed by Gretchen and taking his place in heaven amid flights of angels. Goethe's sublime finale is made here to look deliberately trite, a rushed job of a convenient all-white

happy ending. The big witches' Walpurgisnacht (into which, contrary to Goethe, Gretchen is made a victim) is full of leather, dildo, masturbation, and so forth. Coarse stuff. At the centre of all this is the Faust of Michael Feast. You can see why the RSC casts this actor in intellectual-in-crisis roles. It is that Dürer skull-like face, that cerebral manner, and that ascetic Enoch-Powell-cum-Roger-Scruton voice. But Feast works principally to draw attention to his physical and vocal skills. He is



Christopher Benjamin as Bottom in the RSC's 'Dream'

Alastair Mac

not believable, whether he is entering as old Faust, energetically dragging his feet, throwing down his books, swigging some whisky, and coughing, or as pretending to be the rejuvenated Faust, with a shimmery city-slicker gait. And - whether he is stringing three sentences together in one breath, or tracing pointless vocal rises and falls in mid-phrase - he is merely very artificial. Hugh Quarshie's Mephistopheles, genuinely charming even as he obviously turns on the charm, is a breath of fresh air by com-

parison: and so is Sophie Hayman's radiantly fresh, vital Gretchen. This *Faust* is a year old, and has presumably been revised. It is too much, admittedly, to wish for revisions to its seldom felicitous use of rhyming couplets. ("These relics are unique/Enough to make an antique dealer weak"). But what excuse does it have for having Faust say "this companion with whom I cannot live without"?

In RSC repertory at the Barbican Centre

Opera/Richard Fairman

## Giovanni in the fast lane

**T**here is just one stumbling-block, so let us get that out of the way first. For his party at the end of act one Don Giovanni turns up in drag. Yes, that cliché again: a Don Giovanni in sequined evening gown and fur stole has become as predictable as King Lear the comedian and Macbeth the Scottish social worker.

It is just something modern opera producers have to get out of their system. So now that Katie Mitchell, making her debut in opera with this new production of Don Giovanni for Welsh National Opera, has got it out of her, she can hopefully go on to a successful career in an art-form for which she seems to have an innate talent. There are plenty of old hands who would be glad to have delivered a *Don Giovanni* as fresh and engaging as this one.

A week or two after one of the *Godfather* films came round on television again, there is no missing her point. Updated to the post-war period with a suggestion of gangsters and godfiness somewhere on the Mediterranean, the moral issues in Mozart's opera take on a keen edge. Mitchell handles it very skilfully, using sim-

ple, atmospheric sets by Ras Smith and breathing new life into the characters.

By the time the rehearsal period was over, each member of the cast had an identification with their roles. Don Giovanni is a moral vacuum, a hit-man who enters with a stocking over his face, challenges a man to a fair fight and then produces a concealed knife. Davide Damiani does not quite make the character develop, but sings with authority, even if he does not sound very seductive when he goes courting.

In Mitchell's hands Zerlina and Masetto make a particularly touching couple. A world of innocence teetering on the brink of corruption goes across the face of Catrin Wyn Davies's winning Zerlina, as she vacillates between Giovanni's evil clutches and her Masetto, played with disarming naturalness by Davide Baronechelli.

Very little of the singing is emotionally neutral, certainly not Cara O'Sullivan's ferocious "Or ed chi l'uccore" and she makes a stylish job of Donna Anna's second aria too, despite some lack of body to the voice. Alwyn Moller struggles a little with "Mi tradi", but her Donna Elvira has presence and a

freely-produced soprano. As Don Ottavio, Gwyn Hughes Jones gives notice that he should do well in the bel canto Italian repertoire, where Mozartian finesse is not needed.

Arwel Huw Morgan's friendly, bespectacled Leporello and Anthony Stuart Lloyd's less than superhuman Commendatore completed a cast with more strengths than weaknesses. It was kind of Carlo Rizzi to make sure that these last two could be heard over the orchestra in the last scene. His conducting is generally quite noisy and drives the drama headlong after the Italian style, the sort of Mozart that would not dare venture near Vienna.

Some people may object to that, but his steaming energy adds to a *Don Giovanni* whose characters are living very much in the 20th century's emotional fast lane. If the singers complain that they cannot get round the words at his speeds, they should think of the exercise as musical aerobics. A run of performances like this will do their pector in Rosini no end of good.

Sponsored by Associated British Ports Holdings plc. New Theatre, Cardiff, until September 30, then on tour.

## Lottery benefit for Magna Carta

**O**ne of Jacob Epstein's most monumental sculptures, "Jacob and the Angel" permanently enters the Tate Collection today, thanks to a £375,000 grant towards its £500,000 cost from the Heritage Lottery Fund. The 2.4m by 1.2m alabaster work, carved in 1940, had previously been on temporary loan. In the year 2000 it will form part of the permanent collection in the new Tate Gallery of Modern Art at Bankside.

In all, the fund announced 44 more grants yesterday totalling £4m. Among the more far reaching is a grant of £258,000 for the British Library, which will finance the conversion of some of its catalogues, currently only available in print, to automated format, enabling them to be held and searched on the computer. Scholars around the world will be able to study and compare texts without leaving their desks. Among the papers to be converted is Magna Carta. Among the works of art taken into permanent public custody are a drawing by Gainsborough of his two daughters, which goes to the Gainsborough Museum in his native Sudbury; and the Estorck Collection of Modern Italian Art which, thanks to a £550,000 grant towards a £1.1m project, moves 80 works by such

Futurist artists as Balle, Severini and Russolo into the unlikely home of Northampton Lodge, a Georgian building which overlooks Canonbury Square in Islington.

Among numerous grants to help restore steam locomotives is one of £20,000 for the "Princess Elizabeth Society," which will repair this 1830s locomotive, one of only two still in existence. In 1938 the "Princess Elizabeth" was used on a record breaking run between Glasgow and London to test the feasibility of non-stop inter-city travel.

Anthony Thorncroft

## INTERNATIONAL ARTS GUIDE

## ANTWERP

**CONCERT**  
De Singel Tel: 32-3-2483800  
● Pieter Wispelwey: the cellist performs Britten's Suite No.1 in G, Op.72, Suite No.2 in D, Op.80 and Suite No.3 in C, Op.87; 8pm; Sep 19

## BERLIN

**CONCERT**  
Philharmonie & Kammermusiksaal Tel: 49-30-2614383  
● Südwestfunk-Sinfonieorchester: with conductor Hans Zender and violinist Christian Tetzlaff perform works by Schoenberg and Brahms; 8pm; Sep 20

## OPERA

Deutsche Oper Berlin Tel: 49-30-3438401  
● Galathée, die Schöne: by von Suppé/Wahren. Conducted by Sebastian Lang-Lessing and performed by the Deutsche Oper Berlin. Soloists include Kirsten

Blarick, Heidi Person and Peter Edelmann; 8pm; Sep 19

## BRUSSELS

**CONCERT**  
Théâtre Royal de la Monnaie Tel: 32-2-2291200  
● Katerina Ismailova: by Shostakovich. Concert performance, conducted by Valery Gergiev and performed by the Orchestra and Choir of the Kirov Opera; 7pm; Sep 19

## COLOGNE

**EXHIBITION**  
Römisches-Germanisches Museum Tel: 49-221-2214438  
● Tu-Felix Agrippina: this exhibition features images of members of the family of the Roman Emperor Augustus. Amongst them is Agrippina, who founded the city of Cologne. Exhibition on the occasion of the 50th anniversary of the Römisches-Germanisches Museum; to Oct 27

## OPERA

Opernhaus Tel: 49-221-2218240  
● Otello: by Verdi. Conducted by James Conlon and performed by the Oper Köln. Soloists include Frederic Kalt, Hillevi Martinpelto and Ned Barth; 7.30pm; Sep 21

## COPENHAGEN

**CONCERT**  
Tivoli Concert Hall Tel: 45-33 15 10 01  
● Die Jahreszeiten: by Haydn. Performed by the Danish National Radio Symphony Orchestra with

conductor Ulf Schirmer. Soloists include soprano Ruth Ziesak, tenor John Mark Ainsley, bass Johannes Menov and the Danish National Radio Choir; 8pm; Sep 19, 20

## DANCE

Det Kongelige Teater Tel: 45-33 69 69 69  
● Romeo and Juliet: a choreography by Ivo Psota to music by Prokofiev, performed by the Royal Danish Ballet. Soloists include Rose Gad and Martin James; 8pm; Sep 20

## EDINBURGH

**EXHIBITION**  
Scottish National Portrait Gallery Tel: 44-131-5568921  
● David Roberts RA: A Bicentenary Display: exhibition on the occasion of the 200th anniversary of the birth of the Scottish artist David Roberts (1796-1864). His determination and courage in exploring parts of Morocco, Egypt, Syria and the Holy Land that had rarely been visited by Europeans before, set him apart from his contemporaries and brought him lasting fame. Focused on Robert Scott Lauder's flamboyant portrait of Roberts in Eastern dress, the exhibition includes paintings, photographs, medals and memorabilia; from Sep 20 to Nov 24

## FRANKFURT AM MAIN

**OPERA**

Städtische Bühnen Oper, Ballet, Schauspiel Tel: 49-69-21237444  
● Sarnon et Dalia: by Saint-Saëns. Conducted by Sylvain Cambreling and performed by the Oper Frankfurt. Soloists include Margit Neubauer, Hubert Delamoye and John Brucheler; 7.30pm; Sep 19, 21

## HAMBURG

**OPERA**  
Hamburgische Staatsoper Tel: 49-40-351721  
● Le Nozze di Figaro: by Mozart. Conducted by Stenz and performed by the Staatsoper Hamburg. Soloists include Studer, Bayo, Liang and Fredricks; 7pm; Sep 20

## LONDON

**CONCERT**  
Wigmore Hall Tel: 44-171-9352141  
● Ivry Gitlis and Ana-Maria Vera: the violinist and pianist perform works by Hindemith, Beethoven and Bartók; 7.30pm; Sep 19

## EXHIBITION

Courtauld Institute Galleries Tel: 44-171-732525  
● The Four Elements: this exhibition draws together prints and drawings from five centuries to show the Four Elements - Fire, Water, Earth and Air - in mythology and real life. Included are works from the museum's collection by Manet, Dürer, Guercino, Bruegel, Gauguin, Hieronymus Bosch, Guardi, Rowlandson, Turner, Samuel Palmer, Constable, Piranesi,

Tiepolo and others; to Sep 22  
Tate Gallery Tel: 44-171-8878000  
● Mark Rothko in Cornwall: this exhibition includes works of this post-war American artist who created Abstract Expressionism. The Mark Rothko display is shown in relation to a number of paintings by other artists of that period already on display at the Tate Gallery, such as Franz Kline; to Nov 3

The Hayward Gallery Tel: 44-171-3604000  
● Antony Gormley: Field for the British Isles: exhibition of "Field for the British Isles", made by Antony Gormley with the people of St Helens in Merseyside. Over 35,000 small terracotta figures, each different and varying slightly in size and colour, fill the gallery wall to wall; from Sep 19 to Nov 17

## NEW YORK

**EXHIBITION**  
The Equitable Gallery Tel: 1-212-554-4818  
● Henri Cartier-Bresson in America: exhibition devoted to photographs taken in the US by the French photographer Henri Cartier-Bresson. Comprised of over 100 works selected by Cartier-Bresson himself, the exhibition spans four decades, from 1935-1975; from Sep 19 to Nov 2

## The Pierpont Morgan Library

1-212-685-0008  
● A Fine Line, Rembrandt as Etcher: exhibition featuring more than 100 etchings by Rembrandt from the Morgan Library's collection; from Sep 19 to Jan 5

**OPERA**  
New York State Theatre Tel: 1-212-875-5570  
● Der Rosenkavalier: by R. Strauss. Conducted by George Manahan and performed by the New York City Opera. Soloists include Elizabeth Hollique, Gwendolyn Jones, Nancy Allen Lundy, William Fleck, John Fowler and Stephen Powell; 8pm; Sep 19

## PARIS

**EXHIBITION**  
Centre Georges Pompidou Tel: 33-1-44 78 12 33  
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## COMMENT &amp; ANALYSIS



Ian Davidson

## Showdown time

If the French force the pace on EU reform, it will raise issues the UK Labour party is ill-equipped to deal with

The French are pressing for an acceleration of the timetable at the intergovernmental conference which is discussing the reform of the European Union. If they get their way, the showdown over the future shape of the Union will come before the end of this year.

This will be bad news for John Major, the UK prime minister, because it will mean that he probably cannot avoid a decisive crisis between the UK and its European partners. But it may be almost as bad news for Tony Blair whose Labour government-in-waiting could find itself having to pick up the pieces after the general election.

Mr Blair is popularly supposed to be more pro-European than Mr Major, and by instinct he may be. Yet Labour's policies in practice are virtually as anti-European as the Conservatives' - in some cases, more so. The result is that a Labour government would be ill-equipped to deal with the issues that will arise next year if the French bring matters to a head.

The reason for the French urgency is that Mr Jacques Chirac, the president, fears his European strategy could be thrown into jeopardy by the French parliamentary elections in the spring of 1998. If his conservative government were to lose its majority in the National Assembly, he might be unable to ratify a new European treaty.

But the situation could get worse if there were to be no significant fall in French unemployment and the socialists and communists won a parliamentary majority. They might demand a reopening of the terms of economic and monetary union before the starting date for the single currency on January 1 1999. This could amount to a repudiation of long-standing French demands for Emu and the Franco-

German strategic alliance.

Some French conservatives are so alarmed they are talking of changing the electoral system to a form of proportional representation that might stop the left winning a majority. But Mr Chirac's main response is to speed up the intergovernmental conference with the aim of ratifying a new treaty in the second half of next year, well before the elections. And if the treaty must be ready by the middle of next year, consensus over the changes must be reached at the main Dublin summit in December.

The French say they would be prepared to agree a more modest agenda in exchange for faster progress. But their "scaled-down" list includes progress towards a common foreign and security policy including defence; closer co-operation on justice and home affairs; more majority voting in the Council of Ministers; and a new "flexibility formula" to permit closer integration of an inner core of member states.

Whether there is any chance of this agenda being agreed at all - let alone within France's urgent timetable - may seem a moot point. The intergovernmental conference has been meeting for six months and has yet to move beyond vague generalities.

But if the French succeed in bringing the process to a head, it may concentrate the minds of the majority of member states on the search for compromises. But since Mr Major's Conservative party will prevent him from agreeing to any significant treaty change which would lead to closer integration, it would also mean a confrontation between the UK and the rest.

There was a time when France and Germany were ready to postpone such a confrontation in the hope that an incoming Labour government would be easier to deal with. Now, it appears, they no longer expect Labour to make any fundamental difference to Britain's difficulties with Europe. And a new analysis published next week by the Fabian Society, the Labour party think-tank, suggests they may be right.

The central assessment of Graham Leister, a former Foreign Office diplomat, is that while Mr Blair may want to manoeuvre closer to Britain's main partners in

Europe, it will be difficult. This is because the party's position on Europe is uncomfortably similar to that of the Conservatives - in detail and in general.

Mr Leister's tally of the likely crunch issues in negotiations at the intergovernmental conference corresponds closely with the French agenda. Only on majority voting and other institutional reforms does he think Labour has enough room to reach agreement with the European partners.

On the search for a common foreign and security policy and on justice and home affairs, he judges Labour is at least as opposed to any further integration as the Conservatives. Since the French attach particular importance to the former and the Germans to justice and home affairs, this is not a good starting position. And Labour is even more hostile than the Conservatives to the Franco-German proposal for a "flexibility" clause.

If Mr Blair wants to be in a position to forge European compromises when he comes to power, says Mr Leister, he will have to prepare the ground for a more accommodating stance. He must prepare his colleagues in the party, the British people and Britain's partners in Europe.

With the French push for a faster timetable, he needs to start these preparations soon. But there is no sign he has even begun. Moreover, Mr Blair has not learned to speak "good European". His rhetoric is the old language of defending the national interest, national sovereignty and the balance of power. It simply won't play in Paris or Bonn.

*\*Europe After Major: Can Labour Make a Difference? Fabian Society, 11 Dartmouth Street, London SW1E 5EN. £10*

Friends or foes: Tony Blair and Helmut Kohl

Friends or foes: Tony Blair and Helmut Kohl

## LETTERS TO THE EDITOR

Number One Southwest Bridge, London SE1 9HL

We are keen to encourage letters from our readers. Letters may be sent to +44 171-973 5936 (please set fax to "line"), email: letters@ft.com or by post to the FT web site, http://www.ft.com. Translations may be available for letters written in the main international languages.

## Flexibility is attraction of language

From Mr Henry Ma.  
Sir, An international forum to simplify the English language's pronunciation and spelling?

Despite his British-sounding name, Mr Selwyn Hodson Pressinger (Letters, September 17) seems to have more in common with Continental Europe and Eurocrats and their mania for *divergence* and harmonisation of practices.

Any living language that experiences decentralised evolution will always have a degree of illogicality and inconsistency. (The only truly consistent language I can think of is Esperanto, and it is so because it was artificially constructed.) What is more, it strikes me that English has become so successful worldwide precisely because of its flexibility and receptiveness to other languages' influence.

If a commission were to codify the English language and set it in aspic, that would probably lessen its appeal. (Think of the absurdities of the French authorities *vis-à-vis* foreign borrowings.)

Henry Ma,  
University of Pennsylvania,  
3718 Locust Walk,  
Philadelphia PA 19104-6017, US

## Access not in question

From Mr Matthew J. Turner.  
Sir, Perhaps Mr Tony Hales and his fellow industrialists (Letters, September 5) could explain what not being in Emu has to do with access to the single market? Clearly, other European countries, in or out of Emu, gain as much from trading with the UK as the UK does trading with them. This process, beneficial to all, will continue whether or not Britain shares the same currency.

Matthew J. Turner,  
10 Bury Close,  
St Ives, Huntingdon,  
Cambs, UK

## Food predictions too pessimistic

From Professor Alex Duncan.  
Sir, It may only be brave souls who count Lester Brown's alarming predictions of disaster on world food markets ("World 'heading for new food crisis'", September 17). Complacency would be a serious mistake where the stakes are so high.

But Mr Brown is in a long tradition of pessimism on overall world food supplies and prices, a tradition in which he and others have consistently been wrong, and he needs to explain why he is right this time. The reality is an astonishing story of past success.

Grain prices on world markets have fallen greatly in real terms from 1960 to the mid-1980s, a trend interrupted (as at present) by occasional short-lived violent spikes. Mr Brown is right that stocks are now so low that the present high prices will take more than one year to pass; but it is not clear that he is right about long-term prospects.

The market is more resilient than the pessimists think. A period of higher prices would, as we already see this year, cause resources to come back into grain production that were taken out previously as prices fell. The world's producers appear able to meet the challenge of raising production over the next 30 years in response to the increased demand that will certainly occur, provided that governments follow sensible policies on trade and pricing and provided

that they and the private sector combine to keep up investments in technology, skills and infrastructure. On the need for these actions Mr Brown, and even the most optimistic analysts, agree.

More fundamentally, this debate about production should not cause us to lose sight of the real food risks for the future. Hunger will continue to result mainly from failed economic development of nations, and the poverty of households, not primarily because of lagging production. Getting these right is the priority, along with safety nets for those in need.

Alex Duncan,  
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## Korea exercises checks and balances

From Mr Sung Soo Park.  
Sir, The article "Kim: militant moderate or civilian dictator?" (September 2) by John Burton contained remarks which reflect a misunderstanding of democracy in the Republic of Korea and which distorted President Kim Young Sam's efforts to right the wrongs of recent Korean history and implement democratisation.

Mr Burton depicted Korea's democracy as lacking the checks and balances of a mature western democracy and argued that immense power resides in the Blue House, the presidential mansion. The fact is that the Korean constitution clearly stipulates the separation of government power between the legislative, judicial and executive branches of the government, and checks and balances are exercised accordingly.

The judicial branch is completely independent of the other branches of government. This is attested to by the recent trial of two former presidents. In reporting the trial, the press abroad generally recognised the rule of law in the Republic of Korea, as well as the independence of the judiciary.

Second, Mr Burton's article questioned the special legislation under which the trial of the ex-presidents was held. The legislation was enacted by the National Assembly as the ex-presidents' shush funds surfaced. It became all too obvious that the case had to be brought to justice if the nation is to make progress and develop further. The legislation reflected a growing national consensus.

Therefore, this special legislation is essentially different from what is known simply as a retroactive legislation. Third, the article, referring to the unfortunate ends of his predecessors, said in effect that Mr Kim must worry about his fate after

his term expires. Mr Kim, the first popularly elected president of a civilian administration in the Republic of Korea, has implemented a policy of change and reform, curing the "Korean disease" (the symptoms of which included corrupt and irregular practices), and righting the wrongs of history. His accomplishments have been widely acclaimed both at home and abroad.

Any possible concern about his fate after the end of his presidential term is baseless. Finally Mr Burton wrote that there are allegations concerning financial irregularities involving President Kim's son, Mr Kim Hyun-chul. The article referred to rumours which are completely groundless.

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ministerial counselor,  
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4 Palace Gate,  
London W8 5NF, UK

## Trade-off should be price for backing US

From Mr Michael Johnson.  
Sir, The letter from Willy de Clerck (September 16) about the impact of the Helms-Burton Act on world trade and on America's allies was as cogent as it was

restrained. It causes one to wonder whether the UK government had the wit to demand some restraint by the US from this iniquitous law before going out on a limb with its unqualified support

for the attacks by the US on Iraq.

Michael Johnson,  
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London N6 5DW, UK

## Dinosaurs get hungry

US banks are fighting for a slice of the Internet payments business, says John Authers

US banks have seen number financial services groups run off with several parts of their core businesses in recent years.

Many customers who used to have high-interest cheque accounts have switched to the money market funds offered by mutual fund managers, many of which offer cheque facilities. And the lucrative business processing credit-card transactions and electronic payment data has been scooped up by data-processing companies such as GE Capital and EDS.

But last week a powerful consortium of 15 banks launched a counter-attack against the latest threat to their business - the arrival of the Internet as a medium for making payments. With software companies hoping to win a share of the growing market for such transactions, the banks announced the creation of Integriton, a new system for handling online commerce payments described as a "financial services superhighway".

For the past two years software companies have made all the running in providing "home banking" allowing customers to make financial transactions through their personal computers. In the process they have encroached on core banking functions, such as paying bills and transferring funds between accounts.

Intuit, a Californian software house, controls about 80 per cent of the home-banking market, giving it a long lead over Integriton. Its Quicken programme is already offered to customers by 37 banks, including Wells Fargo.

It also developed a bill-payment and processing system to work with its software - a potentially worrying development for the banks which see this as part of their core business. In what was seen as an attempt to soothe such fears, Intuit earlier this week announced it had sold its bill-payment subsidiary to CheckFree, a company which already handles payments for banks.

But Microsoft, the world's largest software company, is also challenging the banks for the transactions business. Earlier this year it launched proposals for a common standard for transactions software that would work with its Windows operating system.

More frightening for the banks was Microsoft's decision to develop a complete system for bill-paying and transactions with Visa International, the credit-card company. Mr Bill Gates, chairman of Microsoft, attacked the banks as "dinosaurs" - driving the banks to sit down with their rivals to negotiate an alliance.

The 15 banks in the consortium have roughly half the household accounts in the US and Canada. "We are trying to hold on to our customers," says Mr Hugh McColl, president of NationsBank, the fourth largest in the US. "The real battle," he says, is for control of the electronic transactions infrastructure. He adds: "Microsoft says they want to control that. If Microsoft controls it, that makes commodities out of all banks."

The consortium includes International Business Machines, the world's largest computer manufacturer which has so far failed to establish a bridgehead in Internet commerce. At the moment such transactions generate revenues that are scarcely significant - total online commerce this year will be \$700m (£450m), according to Mr Lou Gerstner, IBM chief executive. Visa and Mastercard process payments to that value every 70 minutes, he adds.

But with 48m US households expected to own PCs and modems by the end of the decade, the Internet has the potential to become the dominant medium for financial transactions.

"We expect the number of US home-banking users to grow 75 per cent annually until the year 2000," says Mr Deogo Tuxera of the Tower Group, a consultancy which analyses the home-banking business. "To handle this demand, US commercial banks may be forced to grow their home-banking expenditures to over \$1bn by the year 2000."

By forming a joint venture, the banks - each of which has invested "several million dollars" - will benefit from economies of scale. But most important, they will keep control of the transaction process itself, with the network receiving a fee for each deal made on it. They will also be able to brand their own products. Customers dialling in to Integriton will feel they are dealing with their own bank, not an anonymous computer services enterprise.

The banks believe this will allow them to exploit their main advantage, which is customer loyalty. Mr Gillespie claims they are already using their "high level of trust" to win back customers, helped by legal changes which allow them to offer a wider range of products and build up branch networks.

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"If we are dinosaurs, I would suggest that today we are putting our customers on notice that it is a new breed that is evolving," says Mr Bob Gillespie, chief executive of KeyCorp, another consortium member, "one that intends to be led by a voracious appetite for building market share."

Integriton will publish open standards for the software which will be compatible with existing programmes from Intuit and Microsoft. The consortium hopes this will encourage smaller companies to write compatible programs. And to encourage banks, new consortium members will pay the same price for Integriton's services as the founders.

But the most critical issue is security. The banks know they must convince their customers that their bank records will be protected.

Integriton's answer is to offer users the option of using IBM's private network for their transactions. But several large banks have decided to stay out of the consortium because of the security issue. They include Chase Manhattan, which recently merged with Chemical Bank, Wells Fargo and Citicorp, the largest US retail bank.

The latter has been offering online personal computer banking since 1984. "We're monitoring it, but we aren't at the point where we're prepared to offer our customers transactions over the Internet," Citicorp says. "We need to make sure there are means to make them secure, and make sure our customers are comfortable."

Mr Gerstner, who is promoting IBM's private network, voices the fears many have about the Internet. He says: "It's like talking on a party line. But it's hardly a network you can feel good about doing secure financial transactions on."

Only if the banks can convince their customers that their system is safe will they be able to retain control over transactions that move into cyberspace.

FINANCIAL TIMES TUESDAY AUGUST 13 1996 ★★

## NatWest takes the lead in corporate banking

By George Graham, Banking Correspondent

National Westminster Bank has overtaken Barclays to gain the biggest share of the UK corporate banking market, according to a review by Chartered Banker, the magazine of the Chartered Institute of Bankers.

Lord Alexander, chairman of NatWest, said his bank had been focusing on the corporate market. "It's obviously good news because there is no question of our buying market share by relaxing lending standards," he said.

In a more detailed survey of the 500 largest companies, Chartered Banker found that NatWest was rated by finance directors as the best bank for short and medium-term loans, treasury management, leasing, foreign exchange and international trade finance.

## Enough said.

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# FINANCIAL TIMES

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## China warns Australia over Dalai Lama visit

By Tony Walker in Beijing

China yesterday threatened trade retaliation against Australia over plans by Mr John Howard, the Australian prime minister, to meet the Dalai Lama, Tibet's exiled spiritual leader.

It is believed to be the first time that Beijing has said it would use trade as a weapon to punish foreign governments which receive the Dalai Lama, who is accused by the Chinese of seeking to split Tibet from China.

Mr Shen Guofang, the foreign ministry spokesman, said such a meeting would "unavoidably have an unfavourable influence on economic and trade relations."

He added: "Countries, including Australia and New Zealand, should be clear-minded about the Dalai Lama who deceives international opinion and the leaders of some countries."

The Dalai Lama met Mr Jim Bolger, New Zealand's prime minister, last week before trav-

elling to Australia for a two-week stay. He was received in Sydney on his arrival last Saturday by Mr Alexander Downer, the foreign minister.

Mr Howard said during a visit to Jakarta that he planned to meet the Dalai Lama in spite of strong Chinese protests. "We have a proper reputation as a country of religious and political tolerance and in that context the meeting between us, if it can be arranged, will take place," he said.

Beijing is sensitive about what it regards as the Dalai Lama's attempts to promote Tibetan independence, and has become concerned about separatist movements in its frontier regions.

Beijing has not specified what action it might take, but the Australian New Zealand (ANZ) bank is concerned that its efforts to secure a licence to open a branch in Beijing may be affected. ANZ has been given tentative approval.

China delayed approval for Allianz, the German insurance

group, to secure an operating licence in protest over the reception given to the Dalai Lama in Germany earlier this year. At meetings with Mr Downer last month, both premier Li Peng and vice premier Zhu Rongji alluded to the Allianz example.

An Australian official in Beijing said China may not take immediate action, but he warned trade was "an area of vulnerability for us."

"What they might do remains ambiguous. It may be they won't do anything. The Chinese might leave it hanging," he said.

China is assuming increasing importance as a trading partner for Australia. In 1995, China became Australia's sixth largest trading partner - the 7th largest destination for Australian exports and fifth largest source of Australian imports.

After July 1 1997 when Hong Kong is reunited with China, China will become Australia's third largest trading partner behind Japan and the US.

## Czech bank offered support package

By Vincent Boland in Prague

The Czech central bank stepped in yesterday to prevent a liquidity crisis at the country's biggest privately-owned bank as reverberations from the collapse of another bank last month spread through the financial sector.

Mr Josef Tosovsky, Czech National Bank governor, said he had asked other commercial banks to make Kc 6bn (\$226m) available to Agrobanka, the country's fifth largest bank, if there was a run on its deposits.

Leading banks have refused to extend normal interbank lending facilities to Agrobanka in recent days because of possible problems arising from its links with Kreditni Banka, which collapsed with gross losses put at Kc 12bn.

Agrobanka is controlled by shareholders allied to Motoinvest, a fund management and banking group at the centre of a police investigation into the Kreditni affair.

Mr David Knap-Kostka, a senior executive at Motoinvest, is under arrest charged with embezzlement and harassment of creditors in relation to the collapse of Kreditni. He is a member of the supervisory board of Agrobanka.

Three former Kreditni executives and a second Motoinvest executive are also in detention in relation to the collapse. Mr Pavel Tykac, general director of Motoinvest, left the Czech Republic on Monday.

Motoinvest acquired control of Agrobanka late last year. The central bank admitted yesterday that it is not entirely sure who the ultimate owners are because of the opaque nature of its shareholding structure and the secrecy of Motoinvest's operations.

The move to support Agrobanka followed a crisis meeting of the cabinet and the CNE's banking board that discussed the widening impact of the Kreditni failure.

A special commission comprising the finance, interior and justice ministers is also investigating the reasons for Kreditni's collapse.

## THE LEX COLUMN

### Calling Germany

With two months to go until flotation, Deutsche Telekom is starting to make eyes at investors.

Yesterday the group announced it will pay a DM1.5bn (\$930m) dividend for 1996, despite the fact that first-half profits have been almost wiped out by a series of one-off restructuring and tax charges. That would imply a 2 per cent yield on the DM75bn which most analysts think the company's equity is worth - a reasonably high payout by German standards. And the yield should rise nicely over the next few years. In 1997 the dividend could double to DM15bn as one-off disappear and profits bounce back to DM7bn or more. Thereafter, rapid cost and debt reductions - with net borrowings of DM58bn Telekom is effectively a huge leveraged buy-out - will fuel earnings growth, allowing further increases in the payout.

This scenario might appeal to domestic German investors. But it is unlikely to cut as much ice with international institutions at a time when British Telecom, Deutsche Telekom and Holland's KPN are yielding 5-6 per cent. Moreover, there are more telecom privatisations to come, all of which will try to lure investors with juicy dividends of their own.

Nor are institutions blinded by yield. As far as growth is concerned, Telekom offers fast, though slowing, expansion in eastern Germany and strong market positions in mobile phones and high-speed ISDN lines. But it has yet to knit together its array of international investments and face real competition at home.

The pull-back in prices yesterday is not surprising; the precipitate rise of recent weeks could not continue. But short of the unforeseen, or the US Federal Reserve raising rates, current prices look sustainable. The whiff of volatility and excitement, which is the chagrin of market veterans has largely disappeared, is unlikely to return.

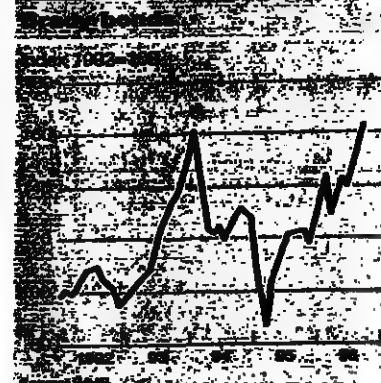
#### Brady bonds

After years of labouring under the stigma of "restructured debt", there is a grave danger of Brady bonds acquiring an image of respectability. An index of prices on these bonds - issued since 1990 in exchange for distressed commercial bank debt, mostly in Latin America - has rallied by about 6 per cent this month alone, and nearly 25 per cent since January. The previously unthinkable - some Brady bonds trading on narrower spreads than similar Eurobond issues - has now arrived.

Improved sentiment is the product of an inflow of new money, with increasingly mainstream investors attracted partly by mouth-watering yield differentials. But these have always been available; indeed, they are much smaller now than in the

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past. The difference lies in the hard-earned policy credibility Brady issuers have acquired as well as the stability the market has shown. Healthy profits in US bond and stock markets have helped, encouraging investors to take more risk in emerging markets. Diminished supply has also played a role; Mexico and the Philippines have swapped Brady bonds for lower yielding Eurobonds, and others are rumoured to be following.

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#### P&O

If the reputation of P&O's chairman Lord Sterling were an investment, now would be a pretty good time to buy. The first step to rehabilitation was last week's container shipping deal with Nedlloyd - an undoubted coup which put some badly needed fix into P&O's share price. The next step will be to top this - as Lord Sterling plainly intends - with a channel ferry alliance. Yesterday's North Sea deal should only be an appetiser. In the channel itself, much more savage rationalisation is needed.

Assume this is on the cards and P&O's prospects are looking up. Helped by healthier property markets as well as the deals, earnings growth should be sprightly. Yet the shares are still trading at a slight discount to next year's market aver-

age price/earnings multiple. This looks unduly cautious. But nagging questions remain. Once the current restructuring is over, P&O will still be a ragbag of dislocated businesses, including stakes in semi-independent ferry and container joint ventures and a hefty chunk of property. Of course, investors will rightly care more about the company's performance than whether it fits some abstract business school model. Nonetheless, as current cash pressures recede P&O will almost certainly want to start spending money again. And given its record, investors will need convincing that their cash will be spent wisely. So as well as sorting out P&O's headaches, Lord Sterling has another big task ahead of him: to articulate convincingly where he thinks the company is heading.

#### Tesco

Tesco's performance is hard to fault. Over the past three years it has successfully boosted volumes by cutting prices, through schemes like its loyalty card and the "Unbeatable Value" campaign. While suppliers have shared the pain on margins, Tesco's superior sales growth has gained it market share, putting pressure on J. Sainsbury and other rivals.

But while this strategy has brought Tesco some competitive advantage it is rapidly commoditising the industry. With customers now used to lower prices, it is hard to see the supermarkets reclaiming their lost margins. Worse, the food retailers are still mercurially flinging around vast amounts of capital. Two years ago, Tesco forecast capital spending of \$450m for the current year. It will actually spend \$770m, more than twice depreciation and three times the level at Marks and Spencer, which serves a bigger market. And although Tesco says the 15 per cent average return from new stores is above its 11 per cent cost of capital, this is not the whole story: building new supermarkets has the effect of reducing the value of existing ones.

As long as food retailers continue to spend at this rate, rapidly rising dividends and share buy-backs remain a distant prospect. This is in stark contrast to much of UK industry, which is generating more and more spare cash. Small wonder the sector has been such a poor stock market performer.

Lex comment on Sears, Page 22

## Concern at rash of attacks by hackers on Internet sites

By Louise Kahoe in San Francisco

A rash of hacker attacks on commercial Internet sites - including one in which the services of Panix, a New York-based Internet access provider, were seriously disrupted - has raised new concerns about the security and reliability of the worldwide computer network.

In these "denial of service" attacks, hackers have flooded Internet sites with false requests for information sent from fake addresses, tying up the computers and preventing access by legitimate users.

In addition to the Panix attack, at least one large information technology company, which declined to be identified, has suffered a similar attack.

Attacks have been "isolated incidents", said Mr Peter Solvik, vice-president of information systems at Cisco Systems, the leading manufacturer of routing equipment for the Internet. The company, however, is concerned that the

problem could spread, disrupting Internet service for millions of users and effectively closing down large commercial sites on the Internet.

With many banks and retailers now planning Internet services, the potential for financial losses as a result of such attacks is rising. Disruption of Internet service can also be a serious problem for the tens of thousands of businesses that now rely on electronic mail and sites on the World Wide Web to communicate with their partners and customers.

The impact of a large-scale "denial-of-service attack" can be devastating, said Mr Solvik. Within a minute, a computer linked to the Internet can be completely overwhelmed and it may take days before service can be restored.

Mr Alexis Rosen, president and co-owner of Public Access Networks, a private company that operates the Panix network, said hackers attacked several computers on his network, preventing subscribers from retrieving electronic

mail, reaching the Panix Web site and reaching Internet news groups over five days. The attacks stopped last week.

Because the attacks came from fake addresses on the Internet, it was "impossible to trace the source without a major effort on the part of all Internet service providers between Panix and the attacking party", said Mr Rosen.

"The nature of the Internet, which is designed to let machines communicate with a minimum exchange of identifying information, makes every site on the Internet vulnerable," said Mr Solvik.

The Federal Bureau of Investigation's New York Computer Investigations Threat Assessment Center is understood to be investigating the attack on Panix. Computer Emergency Response Teams, a US organisation that collates information about security and technical problems on the Internet, are looking into the incident.

Dinosaurs get hungry, Page 14  
Skills warping, Page 10

## Paris and Bonn make pledge to meet Emu deadline

Continued from Page 1

to be "truly effective" and designed to have a continuing impact once Emu had been established. He also insisted that the Maastricht criteria, which will determine which countries can join Emu, should continue once the single currency was operating.

An economic and monetary union based on principles of stability could lead to lower interest rates, Mr Tietmeyer said.

In a warning to governments not to dilute the criteria, Mr Tietmeyer said they "must be applied correctly and precisely". He said France and Germany had agreed the need

to "meet the criteria fully without any window-dressing operation".

However, he acknowledged that the criteria - which include the 3 per cent limit on government deficits and a limit of 60 per cent of GDP for total government debt - were subject to interpretation. It would be the task of the Euro-

pean Monetary Institute, the forerunner of the planned European central bank, to elaborate on this before the end of this year.

Mr Tietmeyer said he hoped the Dublin meeting would result in broad agreement on a plan to regulate relations between Emu members and countries outside the group.

## FT WEATHER GUIDE

### Europe today

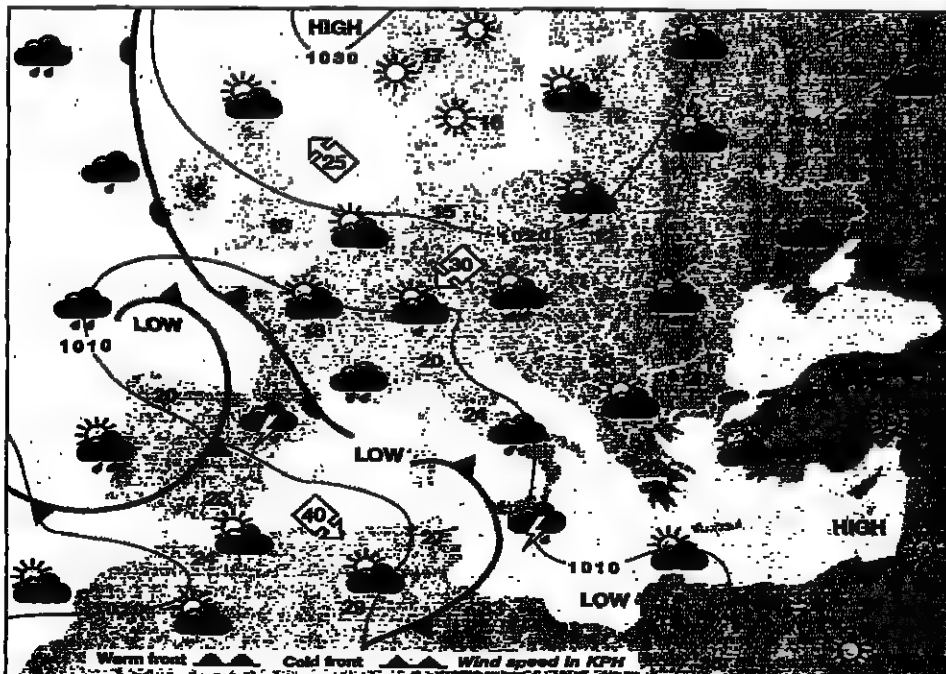
High pressure over western Norway will bring sunshine to most of Scandinavia but Finland will be partly cloudy. Most of the British Isles will have sunny periods. The Benelux, Germany and northern France will have sunny spells. The Mediterranean will have some rain. Spain and Portugal will be mainly cloudy with thunder showers likely near the east coast. Showers will occur in Italy and Sicily will have thunder showers. Showers are also likely in Switzerland and Austria. Sunny periods are expected over the Balkans, Greece and Turkey.

### Five-day forecast

Western Europe will be changeable with sunny periods and showers. High pressure will bring fair weather to Scandinavia. A low pressure area will cross Spain and northern France reaching Italy and the Balkans during the weekend. Abundant rain will fall near the track of the low.

### TODAY'S TEMPERATURES

Location	Minimum	Maximum
Abu Dhabi	sun 30	sun 36
Accra	sun 28	sun 34
Algiers	sun 28	sun 34
Amsterdam	sun 16	sun 22
Athens	sun 26	sun 32
Bahia	sun 26	sun 32
Bangkok	sun 26	sun 32
Batavia	sun 26	sun 32
Bombay	sun 26	sun 32
Buenos Aires	sun 26	sun 32
Calcutta	sun 26	sun 32
Cairo	sun 26	sun 32
Cape Town	sun 26	sun 32



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

Location	Minimum	Maximum
Cambridge	sun 27	sun 33
Cardiff	sun 27	sun 33
Cebu	sun 27	sun 33
Chennai	sun 27	sun 33
Chicago	sun 27	sun 33
Cologne	sun 27	sun 33
Dakar	sun 27	sun 33
Dallas	sun 27	sun 33
Dhaka	sun 27	sun 33
Dubai	sun 27	sun 33
Durban	sun 27	sun 33
Edinburgh	sun 27	sun 33
Faro	sun 27	sun 33
Frankfurt	sun 27	sun 33
Geneva	sun 27	sun 33
Glasgow	sun 27	sun 33
Hamburg	sun 27	sun 33
Helsinki	sun 27	sun 33
Hong Kong	sun 27	sun 33
Honolulu	sun 27	sun 33
Jakarta	sun 27	sun 33
Jersey	sun 27	sun 33
Karachi	sun 27	sun 33
Kuala Lumpur	sun 27	sun 33
Las Palmas	sun 27	sun 33
Lima	sun 27	sun 33
Lisbon	sun 27	sun 33
London	sun 27	sun 33
Luxembourg	sun 27	sun 33
Lyons	sun 27	sun 33
Madrid	sun 27	sun 33
Manila	sun 27	sun 33
Mexico City	sun 27	sun 33
Moscow	sun 27	sun 33
Mumbai	sun 27	sun 33
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Naples	sun 27	sun 33
Nassau	sun 27	sun 33
New York	sun 27	sun 33
Nice	sun 27	sun 33
Osaka	sun 27	sun 33
Paris	sun 27	sun 33
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Vancouver	sun 27	sun 33
Vladivostok	sun 27	sun 33
Vienna	sun 27	sun 33
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Washington	sun 27	sun 33
Wellington	sun 27	sun 33
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Zurich	sun 27	sun 33

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# THE PHILIPPINES

## Manila chalks up several tiger stripes

There's a lot of good news, but with only two years left of his term, President Ramos is under pressure over the last stages of his reform programme, writes Edward Luce

Like passengers at the proverbial London bus-stop waiting hours before a whole fleet comes along, the Philippine government has recently had an unexpected crop of good news.

With a 7.1 per cent rise in gross national product in the first half of 1996, economic growth could finally be on course to reach Asian Tiger rates, say economists. The signing on September 2 of a permanent peace settlement to end the bloody 24-year civil war with the country's Sun Moslems has been hailed as proof that political stability has been achieved. And foreign investment, led by Japanese and Taiwanese electronics companies, is at last spilling over into robust manufacturing growth.

There is so much good news, in fact, that it is easy to forget that just six months ago observers were beginning to question the sustainability of the country's economic turnaround. A series of natural disasters at the end of last year almost bludgeoned the agricultural sector into negative growth and threatened - via higher food prices - to push inflation, which had surged to 11.8 per cent in the last quarter, into an upward spiral this year.

Political squabbling in congress, triggered by the split of the ruling Lakas-Laban coalition into opposing forces at the beginning of 1996, and a series of violent strikes against fuel price deregulation, raised fears that the national consensus behind economic reform was fragmenting. Indeed at one stage, when almost every government bill seemed to be submerging into a quagmire of congressional bickering, some thought President Fidel Ramos had become a lame duck.

But time, and, of course, events have conspired to swing the emotional pendulum back. With the exception of the crucial tax reform bill, much of the contested legislation, including oil deregulation, has entered the statute books. Inflation, meanwhile, has fallen below double digits and is expected to drop to about 6 per cent by December. Even the agricultural sector, which has long been a drag on the Philippine economy, has rebounded with 8.6 per cent growth in the second quarter of 1996.

Against this backdrop which, in the words of one businessman, shows "all the good economic indicators pointing up and all the bad ones pointing down", it would be tempting to view the problems earlier this year as a pothole on the road to Asian Tigerhood. Judging by the country's mercurial past, however, only the foolhardy would predict the latest mood swing will last. Plenty could still go wrong.

For a start, the tax bill, which is considered the single most important fiscal reform in the country's recent history, could still be picked to pieces by hostile forces in congress.

Important elements of the legislation, which is already several months behind schedule, have been successfully opposed by powerful interests led by Lucio Tan, the country's foremost Chinese-Filipino businessman and chairman of Philippine Airlines.

The publicity-shy Mr Tan, whose array of business assets also include the Allied

Banking Corp and Asia Brewery, the country's second largest beer company, successfully lobbied against a clause which would have abolished the ad valorem tax on "sin" products.

His enemies, including the government tax department, accuse him of fiddling the ad valorem tax system by shifting production costs to "ghost" marketing arms. Government lawyers allege Mr Tan has avoided 26bn pesos (US\$1bn) in taxes through this deception. Under the compromised version passed last week, the ad valorem tax will be retained side by side with the excise taxes on beer and tobacco originally proposed by the government.

The setback to the government augurs badly for its proposals to simplify the personal and corporate income tax system which congress will debate later this month. The government wants to narrow the nine-tiered tax system down to three bands and broaden the tax base. The IMF has urged the Ramos administration to push the tax package through this year.

Second, the Philippines is not immune to the general downturn affecting exports across east Asia. With export growth of 18 per cent in the first seven months of 1996, the Philippines is still ahead of the pack but below the 30 per cent increase in export receipts it registered in 1995.

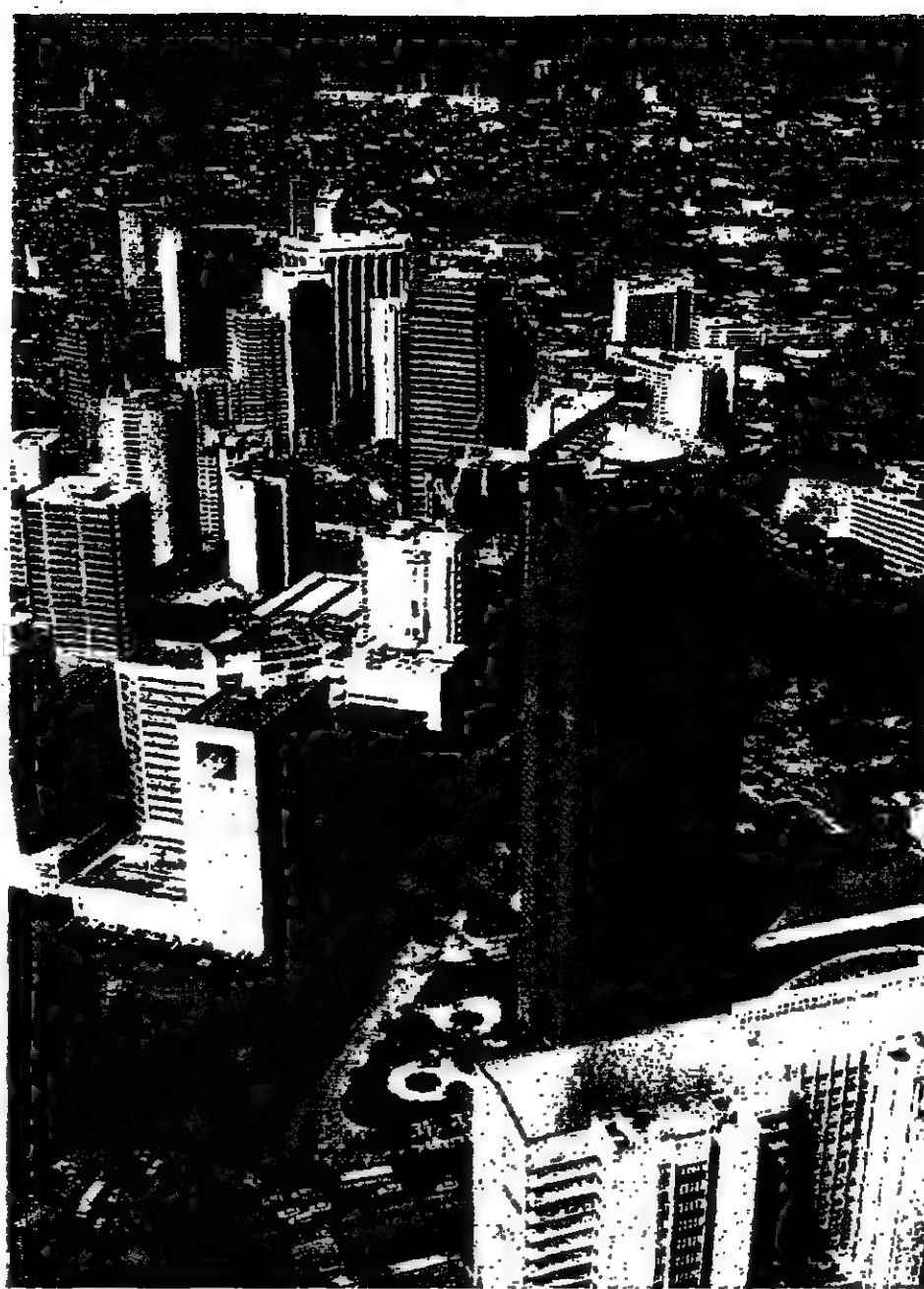
A further drop in the global price of electronics, which make up 40 per cent of total Philippine exports, could eat into the country's performance in the latter half of the year. On the other side of the coin, the Philippines' coconut and pri-

mary commodities sector appears to be recovering from the contraction of 1995. But a sharp drop in overall exports, which have been outpaced by import growth of 24 per cent this year, would lead to a widening of the current account deficit. At 2.5 per cent of GNP, it is still within acceptable bounds, thanks to remittances from the country's 4m-strong overseas workforce.

Last month Cielito Habito, cabinet minister for planning, earned himself a rebuke from the central bank for suggesting it should engineer a depreciation of the Philippine peso, which he said had appreciated by 10 per cent in real terms over the last 12 months and thus constrained exports. Not unreasonably, the central bank pointed out it had almost doubled its foreign exchange reserves to over US\$11bn since January in an effort to prevent the currency from appreciating further. Any attempt to push it in the other direction, said central bankers, would be swiftly negated by the continuing surge of capital inflows. The argument is likely to intensify in the coming months.

Nevertheless, for an economy which only a few years ago was heavily reliant on primary commodity exports and large scale foreign borrowing, the controversy is comfortably reminiscent of debates in more developed economies like Thailand and Malaysia. With debt service costs down to about 15 per cent of export revenues and agricultural growth easily outpaced by growth in services and industry, the Philippines is starting to resemble its more prosperous Asian neighbours.

Like Thailand, and for that matter, Indonesia, rapid economic growth is pushing the



The Manila business district clusters around the towering stock exchange building. Picture: Anna Courriel

country into infrastructure bottlenecks, most noticeably in transport, public hygiene and water services. Similarly, the rapid emergence of a Philippine middle class - bringing in its wake the obligatory property and consumer spending boom - has left a large and impoverished underclass to stew in political obscurity. The gaping failure of the much-touted "trickle-down" effect (35 per cent of Filipinos remain below the absolute poverty line) and president Fidel Ramos' inability to deliver

on his promise to shift spending from traditional items to better health and education for the poorest, has compounded this divide. Again, the problem is common to other south-east Asian countries and has, to a certain extent, been amplified by the Philippines' recent economic successes. Unless, however, there is a more concerted effort to alleviate the extremes of inequality, the country will continue to be racked by the scourges of mass labour migration, tuberculosis, sex

tourism and the spectre of wide scale social unrest. With less than two years to go before the May 1998 elections, Mr Ramos is acutely aware of these pressures. The key question is whether he has the power or the political will to confront them in the time which remains. The first of the president's 1992 election pledges to restore political stability and the country's chronic power shortages within his first two years of office was faithfully delivered. The second pledge, to put the economy on track for Newly Industrialised Country status with a programme of sweeping deregulation and privatisation, has probably been achieved. The last, to focus aggressively in the final two years of the administration on the reduction of poverty, corruption and bureaucracy, is still before him. Only time will tell whether it was the throw-away line of a politician on the hustings or a sincere pledge to fight for justice in a strikingly unequal society.

### IN THIS SURVEY

All the facts and figures p6

● **POLITICS:** The peace deal with Moslem separatists puts President Ramos on high ground as he approaches the last two years of his term p2

● **FOREIGN AFFAIRS:** Manila is doing all it can to plant a daisy in the barrel of China's rifle p2

● **ECONOMY:** The "boom-bust" habit has been a hard one to break p3

● **CAPITAL MARKETS:** Legislative changes are necessary before substantial interest can be translated into stronger investments p3

● **INVESTMENTS:** The number of investments approved by the BOI is up 15% on last year as bullishness persists p5

● **THE ELECTRONIC SECTOR:** No longer satisfied with being an efficient "assembly line" p4

● **OIL AND PETROCHEMICALS:** The deregulation of the oil industry earlier this year has opened up the country to full competition in the downstream refining sector p4

● **PROPERTY:** The boom is going strongly into its fourth year p5

Editorial production: Heather Parker  
Graphics: Bob Hutchinson and Mark Boland



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## 2 THE PHILIPPINES

■ Politics: by Edward Luce

# Unlikely peace pact seems set to hold

Hard-line opponents of the deal have been sidelined

The September peace agreement between the government and the Moro National Liberation Front (MNL), the country's largest Muslim separatist group, was something many thought they would never see. The conflict, which in its most recent phase since 1972, claimed over 100,000 lives, has bedevilled the southern Philippines since Spain colonised the country in the 16th century.

Indeed, the word Moro, which applies to the country's 5m Muslim minority, is simply a corruption of the Spanish word for "moor". Bridging the gulf between the region's Christian and Muslim leaders, was a feat few believed President Fidel Ramos would accomplish. But war fatigue and the Malacanang Palace's unstinting hunt for political accommodation meant a return to full-scale war was unlikely.

The outcome - a three-year autonomous council covering 14 provinces to be replaced by a permanent autonomous structure after a plebiscite in 1999 - is an agreement which will be underpinned by the support of the Philippines' closest neighbours, including Indonesia.

The significance of Jakarta's involvement, underlined by the presence of Ali Alatas, Indonesia's foreign minister, at the signing ceremony, was not lost on Manila's elite.

"Indonesia's encouragement of the MNL to reach a peaceful settlement was crucial to the success of the talks," said Julius Caesar Parrenas, professor of politics at the University of Asia and the Pacific, in Manila.

"As a country with more separatist conflicts than any other in the region it was not going to allow an unfortunate precedent to be established next door."

The promise of Indonesian and Malaysian investment in Mindanao, the Philippines' southernmost island, and the knowledge that both Christian and Muslim hard-line opponents of the deal are politically sidelined, explains the widespread confidence that the deal will stick. Equally important, it gives substance to the country's claim to have achieved genuine political stability.

This claim - backed up by the demise of the country's other long-term insurgency, the communist rebellion, which is barely a shadow of its former self - is now generally accepted by foreign investors. The recent turmoil in Jakarta and security problems across the Taiwan straits have highlighted the Philippines' relative stability compared both to its own past and the travails of some of its neighbours.

Nevertheless, the outcome of the 1998 presidential elections features with growing prominence in the calculations of overseas investors. Few believe the momentum of economic reforms set in train by Mr Ramos could actually be reversed. But a populist candidate, elected perhaps by an electorate dissatisfied with the growing inequality of wealth distribution or backed by vested business interests, could, at least, check the pace of the economic reform process.

The formal split in the senate earlier this year of the Laban party from the ruling Lakas-Laban ruling coalition was taken by many as the first shot in a long presidential campaign. Led by Senator Edgardo Angara, previously a supporter of the government's liberal economic agenda, the break-away group had already called itself the "senate conscience bloc".

In a U-turn characteristic of the fluid party system, politicians such as Gloria Macapagal, a presidential hopeful for 1998, switched from support to opposition to the key economic reforms including oil price deregulation, expanded value added tax and liberalisation of trade in agriculture.

Confusingly labelled "pro-poor", the group set about undermining policies designed to help the less well-off by tabling exemptions to expanded VAT on real estate transactions, electronic goods and other luxury products. Although it failed to prevent oil price deregulation, the group also described its stance on oil as "pro-poor" even though the measures would have led to a reduction in kerosene prices for the poor.

The debate, conducted in an emotional atmosphere and fuelled, at times it seemed, by a campaign of disinformation in many of the country's leading newspapers, was an unsettling forerunner of what could be in store in the 1998 presidential elections. "It should not be forgotten that the Philippines lacks a proper party system," said a leading foreign investor. "The scope for naked political opportunism here is very wide."

The focus on 1998 is somewhat clouded by the fact that supporters of Mr Ramos are involved in a signature campaign to hold a referendum to abolish constitutional term limits or to simply extend the president's term. If successful - the petition has raised 1.7m out of the required 3m signatures - Mr Ramos could yet opt to run in 1998 despite the controversy it would generate.

Congressmen, of whom a third must stand down in 1998, not to mention the dozens of provincial governors and mayors facing compulsory retirement, have sent mixed signals. The amendment, which would be bitterly opposed by Cory Aquino, the former president who drew up the constitution in 1987, and the catholic church, would be held up by some as a return to the days of President Ferdinand Mar-



President Fidel Ramos

Picture: Fernando Saez/AP

Presidential aides say Mr Ramos has not yet made up his mind but would probably take the gamble if the constitutional amendment had gained enough support by mid-1997.

Supporters of Mr Ramos are apparently contemplating one of two options. The first, to alter the constitution to allow Mr Ramos to stand for a second six-year term is the most plausible. The second, to extend the presidential term to 2000 without holding an election is also under consideration. Ironically, the latter, which would be justified by the need for the administration to complete the "unfinished business" of its reform programme, would almost certainly tarnish its solid record on political stability.

cos, who suspended the constitution in 1972 to perpetuate his hold on power.

The arrival of Chinese President Jiang Zemin and 16 other heads of state in Manila in November will be an opportunity to intensify the dialogue with Beijing and to push China's integration with the wider region.

Manila believes it is as much a strategic as an economic goal to eliminate trade barriers within Apec by 2010 for developed members and 2020 for developing countries. "China is now on the road to becoming an economic as

■ Foreign affairs: by Edward Luce

# Pragmatism governs thinking in Manila

Geography rules as Asean and Apec are used to defuse military, economic threats

At the Apec (Asia Pacific Economic Co-operation) leaders' summit in Manila in November, the regional spotlight will focus, temporarily, on the Philippines.

Cynics will dismiss the one-day leaders' meeting - preceded by seven days of ministerial and senior officials talks - as little more than a photo-opportunity. For the Philippine government, however, the summit is viewed as a chance to broadcast the country's growing respectability to the wider region. In addition to this rare public relations opportunity, it sees the Apec trade liberalisation process as key to the country's future security.

Since the US was summarily ejected from its Philippine naval and air force bases by a senate vote in 1991, the country has felt acutely vulnerable to outside pressures. The discovery last year of Chinese naval installations on a portion of the disputed Spratly Islands, 130 nautical miles off the Philippine coastline, heightened this sense of exposure.

A subsequent wave of Chinese "rogue" naval incursions into Philippine waters helped stoke unease about China's military reach and strident rhetoric. Manila's mutual defence treaty with the US does little to counter these fears.

The arrival of Chinese President Jiang Zemin and 16 other heads of state in Manila in November will be an opportunity to intensify the dialogue with Beijing and to push China's integration with the wider region. Manila believes it is as much a strategic as an economic goal to eliminate trade barriers within Apec by 2010 for developed members and 2020 for developing countries. "China is now on the road to becoming an economic as

well as a military super-power," said Domingo Siazon, Philippine secretary of state for foreign affairs. "Our main concern is how China will behave in the future. We believe that Apec provides the solution by giving China the economic space to grow within a framework which will diminish the possibility of open conflict."

As a supporter of China's application to join the World Trade Organisation in Geneva, the Philippines is also playing a pragmatic game with Beijing. The refusal last month to issue visas to a delegation of Tibetan activists invited to speak at a human rights conference in Manila was taken as evidence of a desire to avoid provoking Beijing before the Apec meeting.

Talks with China on the Spratlys have also led to an easing of tensions. The two countries agreed to resolve the dispute without force. China's membership of Asean (Association of South-east Asian Nations) is also construed as an opportunity to engage Beijing.

Through the Asean regional forum and other less institutional channels, south-east Asia has spoken to China with one voice on the Spratlys. The other claimants - Malaysia, Vietnam, Brunei and Taiwan - all signed the 1992 "Manila declaration" which pledged to avoid conflict over the potentially oil-rich islands.

China's membership of Apec and the regional forum is also considered a vital conduit to promote civilised dialogue between the US and Beijing and to ensure Washington remains committed to the region. "If the US withdraw militarily from Asia, Japan would feel pressured to develop its own nuclear weapons," said Mr Siazon. "This would lead to a nuclear arms race in the region. It is vital, therefore, that the US remains fully engaged in Asia and the Pacific."

The development of closer trade and economic ties at the sub-regional level within

the seven-member Asean group is also an essential part of what Philippine officials call the broader Asian "template". Manila's informal proposal earlier this year to unilaterally extend Asean's tariff reduction programme to Apec on a "most favoured nation" basis has so far made little progress.

The initiative, which would extend to the region as a whole Asean's goal of reaching a 5 per cent common tariff rate by 2004, would - if accepted - be presented as a bold gesture at the summit in November. But the Philippines, which, unlike Malaysia, has consistently backed the concept of "open regionalism" in Apec, is attempting to keep the issue alive at meetings with its counterparts.

"In Asean and indeed Apec, we do things slightly differently to other trade groups," said Melito Salazar, Philippine undersecretary for trade and industry. "We float proposals behind the scenes and if they meet with a good response, we move it up to the formal level. There is still plenty of time to talk about this initiative before November."

As part of Manila's contribution to Asean's obsession with "consensus", the Philippine government surprised many of its domestic supporters when it uncritically accepted Burma's application to join Asean earlier this year. In a vague nod towards the Philippines' democratic principles, Burma was persuaded to issue a joint statement expressing general support for "democratisation". Beyond that, however, no conditions were attached to Burma's accession.

"First and foremost, Asean is a geographical family of nations, and the differences between our political systems do not alter that fact," said Mr Siazon. "But we believe that by directly growing together and helping each other to develop, we will encourage the establishment of democracy in the region."

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■ **Economy:** by Edward Luce

# Manila has learnt its IMF lesson well

The outlook is tigerish as key indicators line up with IMF forecasts

With just nine months to go before the Philippines graduates from what it hopes will be its final International Monetary Fund programme, almost all the key macroeconomic indicators are in tune with IMF forecasts. The programme, a three-year US\$684m credit assistance facility which, in the event, has been left untouched, was designed to help rid the country of its tendency to behave like a child in a candy store, when ever growth rates took off.

Like those with a sweet tooth, the country has learnt its lesson the hard way. Over-consumption, fuelled by overseas borrow-

ing and higher government spending during the 1970s and 1980s, was followed by indigestion and negative growth rates the next year.

A repetitive "boom-bust" cycle worked its way into the national psyche, and became a difficult habit to kick. Several hard years of often painful reform, however, appear to have given the Philippine economy a more abiding character, less prone to over-indulgence. Just one example is the composition of imports: ten years ago the country paid for imported foreign consumer products with imported dollars.

By 1996, consumer goods had plummeted to less than 10 per cent of the country's import bill. The remaining 90 per cent or so is accounted for by raw materials, capital equipment and half-finished goods for the

country's growing export and manufacturing base.

With export growth of 80 per cent in 1995 and 18 per cent in 1996, the country no longer relies heavily on overseas debt to fund economic expansion and domestic consumption. As a percentage of export receipts, debt servicing costs have dropped from a high of about 40 per cent in the late 1980s to 13 per cent in 1996. Total foreign debt has plummeted from 180 per cent of GNP to 51 per cent this year.

In 1997 the Philippines is projected to register its fourth budget surplus in a row.

Large problems, of course, remain, not least the need to push through a comprehensive tax reform bill if the budget is not to swing back into deficit as revenues from privatisation dry up.

However - as the surge of

foreign direct investment over the last 18 months eloquently demonstrates - the overall picture has radically changed. With 7.1 per cent gross national product growth in the first half of 1996, up from 5.5 per cent in 1995 and 5.2 per cent in 1994, economists believe the Philippines is inching its way towards Asian Tiger growth rates.

"If I was coaxed to gaze into my crystal ball, I might well argue that the Philippines has the potential to outperform its neighbours," says David Nellor, IMF representative in Manila. "There is little doubt now that recent growth is more than just a cyclical upswing."

What, therefore, could possibly stand in the way of double-digit growth rates? Like any reformed binger, there is always a danger the Philippines might stealthily

revert to old habits. This could happen in a number of ways, the most plausible of which is a return to fiscal irresponsibility.

With privatisation proceeds diminishing rapidly, the country urgently needs to put a broader and more transparent tax system in place.

Failure to enact the tax reform bill in acceptable form - the capacity of the Philippine congress to shoot the economy in the foot should not be underestimated - would quickly push the national budget into the red. This would eliminate the badly-needed scope to boost spending on health, education, infrastructure and other areas vital to the country's future competitiveness.

It would also, inevitably, mean a return to higher government borrowing, which would push domestic

## Approved investments

Sector	Project cost Peso bn	% Share
Manufacturing	32.00	40.2
Public utilities	23.33	29.3
Transport-related projects	8.88	8.4
Energy related projects	4.55	6.2
Infrastructure/Industrial Service	4.62	5.8

Source: Board of Investments

interest rates up and private sector investment down. The growth of domestic savings, up from 14 per cent of GNP in 1993 to around 20 per cent this year, would almost certainly come to a halt.

Higher domestic interest rates would also raise the cost of servicing the government's peso-denominated liabilities, 80 per cent of which are short-term. The goal of reducing government spending on interest payments - which will gobble up 25 per cent of this year's

budget - to make space for more productive expenditure (such as boosting infrastructure spending from 3 per cent of GDP to the 6 per cent average in south-east Asia) would also be stymied.

"The tax bill is the last really significant economic reform left to accomplish," said Mr. Bernhard Eschweiler, an economist at J.P. Morgan in Singapore. "It is also, however, one of the most important. Raising tax revenues is crucially important if the country

wants to keep the economy on the right track."

Apart from tax there are also question marks over the country's current account balance. Contrary to popular opinion, about 70 per cent of the Philippines' estimated US\$5bn remittances comes from expatriate professionals in the US rather than domestic servants toiling in the Gulf and Hong Kong. The notion that the country owes its small balance of payments surplus to the sweat of its 3m overseas maids is a myth.

The spectre, however, of a widening current account deficit is not. With strong overseas worker remittances making the difference between a small current account deficit - at about 2.5 per cent of GNP - and a large one, there is always the danger that the deficit could widen. The need to maintain rapid export growth to help pay for even faster import growth is therefore paramount.

■ **Capital markets:** by Edward Luce

## Too many cooks

Greater clarity needed in order to encourage investments

The rapid emergence of the Philippine stock market over the past three years has not been matched by equivalent growth in the debt market. With stock market capitalisation more than quadrupling to US\$70bn since 1993, and average daily turnover - two-thirds of which is foreign-driven - rising from about US\$40m to US\$120m in the same period, Philippine equities are clearly in demand.

The same cannot be said of peso-denominated debt. With the exception of government securities, notably the 91-day treasury bills and more recently the market for two, three and seven-year government bonds, the growth of Philippine corporate debt has been sluggish. Delays to various capital

market reforms, including the introduction of a central depository system and changes in the treatment of mutual funds, has prompted Philippine blue chips to issue overseas rather than at home.

Over the last six months we have seen a strong rise in interest from foreign institutions in the local debt market, particularly government securities," said Mark Boyne, vice-president with responsibility for treasury and capital markets at HSBC Markets in Manila. "But a number of tax laws and regulations need to be clarified before that substantial interest can be translated into stronger investments."

First on the list for reform is the 30 per cent withholding tax, which analysts say is badly drawn up and confusingly implemented. Under various tax treaties, the Philippines is obliged to reimburse foreign investors part of the 30 per cent tax. The central bank has yet to clarify how it will implement

this. US investors, for example, are only supposed to pay 10 per cent according to a bilateral treaty.

Second, the 0.25 per cent documentary stamp tax discriminates against private sector bonds. Government bonds are already exempt from the tax. This not only kills the market against private debt but acts against the development of a secondary debt market in private debt, say investors. "The stamp tax is imposed on just about everything that moves and it's just too high," said Roman Azanza, director of Crosby Securities in Manila.

Third, mutual funds are subject to double taxation. Pending a change in the law, foreign investors are also debarrd from sitting on the board or from taking a majority share in local unit trust funds.

Most of these anomalies are due to be ironed out either by legislation or by new central bank regulations in the next six months. Some, notably simplifying



Traders on the Market Stock Exchange

the tax treatment of mutual funds, have been rolled into an omnibus tax bill which has been delayed for political reasons.

Others, such as confusion over the definition of short selling, which, according to one broker, is "viewed with great suspicion by the authorities" can be cleared up by simple fiat. "The main problem is that there are too many cooks spoiling the

broth," said Benjo Arcinas, president of the money markets council. "The SEC, the central bank and congress are all supposed to draw up regulations. As a result no one seems to have taken a lead."

This confusion is also behind the delay to the setting up of a central depository system and a central clearing house, both of which were supposed to be

investing in markets without a central depository system. Others are deterred by Manila's lengthy settlement process. "The central depository will reduce settlement time on non-equity securities from 27 days to 4 days," said Mr. Azanza. "This will dramatically curtail systemic risk in Philippine debt."

The frustration over the slow evolution of the peso debt market stands in marked contrast to the reception given to Philippine corporate debt overseas, especially in the Euro-debt and Yankee bond markets. In the three years since the National Power Corporation (Napocor) led the country's return to the overseas debt market, more than a dozen Philippine companies have followed suit.

Some, such as the Philippine Long Distance Telephone Company, which has issued US\$750m in seven and ten-year bonds, have returned up to three times. FLD's Euro-debt is trading at about 250 basis points over Libor. Ayala Land and SM Prime, two of the country's leading real estate companies, are trading at less

than 210 basis points over US treasuries on their three year floating rate notes.

Several Philippine banks, including Metrobank, which will later this month issue the country's first five-year FRCD in Europe in a US\$100m offering, have expressed frustration at the costs of issuing shorter-term debt in pesos. Nevertheless, it is hoped the government's initiative earlier this month to retire as much as US\$1.9bn in Brady debt (rescheduled debt linked to US treasuries) and replace it with uncollateralised 15-year maturity and 20-year fixed rate Euro-bonds, will set a benchmark for longer-dated Philippine corporate debt overseas.

"Philippine corporate debt is now well recognised and well received in Europe and elsewhere," said Richard Luddington, head of J.P. Morgan's emerging debt syndicate in London. "On a comparative basis, most Philippine issues are trading towards the quality end of Indonesian corporate debt, and at much tighter rates than equivalent Mexican issues for example."

## GOVERNOR GABRIEL C. SINGSON

August 1996

In a banking career spanning 40 years, Mr Singson has played an integral role in the Central Bank of the Philippines, the Philippine National Bank and the Asian Development Bank.

In 1993, he was appointed as the first Governor of the 'Philippines' central monetary authority, the Bangko Sentral ng Pilipinas. He also holds the positions of Governor of the International Monetary Fund for the Philippines and Alternate Governor of the International Bank for Reconstruction and Development.

In recognition of the achievements of Mr. Singson and the Bangko Sentral in furthering the country's economic progress, the Philippine House of Representatives, in an unprecedented move, unanimously adopted on 8 June 1996 House Resolution No. 49 commending Mr. Singson for his outstanding work.

Mr. Singson is a firm believer in markets. As central bank governor, he has been at the forefront of foreign exchange and banking liberalization.

**Q From your perspective, as Governor of the Bangko Sentral, please give a brief resume of the country's reform efforts.**

**A** The basic objective of economic reforms that have been vigorously pursued during the administration of President Fidel V. Ramos is to open up the economy to global competition and make it stronger, sustainable, and market-oriented.

We have eliminated import quotas, lowered tariff barriers, liberalised foreign investments, de-monopolised such key sectors as transport and communications, opened up infrastructure development to the private sector, deregulated fuel prices, and vigorously implemented a wide range of financial sector reforms. A key financial reform was the liberalisation of foreign exchange regulations in 1992. This has culminated in the complete removal of all current account restrictions and our acceptance in 1993 of Article VIII obligations as a member of the International Monetary Fund.

We have also reformed the banking system highlighted by the full rehabilitation and grant of policy independence to the Bangko Sentral ng Pilipinas (the central bank) in 1993 and the opening up of the local banking system to direct foreign competition in 1994. This paved the way for the lowering of reserve requirement from 22 percent to 15 percent. We have also allowed 10 new foreign banks to put up branches and an unlimited number to establish Philippine subsidiaries or enter into joint ventures up to 60 percent ownership.

**Q What is the role of the Bangko Sentral in economic reform?**

**A** The Bangko Sentral has two key roles to play which are directly related to its responsibilities. First and foremost, we have a major role in preserving monetary stability. By that I mean achieving low inflation and a stable but competitive exchange rate. Monetary stability is essential towards ensuring the best possible chances for an orderly transition to more market-oriented arrangements. Without basic monetary stability in place, there is much greater danger of financial imbalances and excesses that ultimately destroy the credibility of the whole reform process. Second, as chief regulator of the strategic banking system, the Bangko Sentral plays a leading role in elevating the financial system to international standards both in efficiency and safety. In line with this, we have deregulated domestic banking operations including branching and investment rules to make banks more competitive. We have, at the same time, increased minimum capitalisation requirements to strengthen individual banks for more intense competition.

**Q How independent is the Bangko Sentral; why is its independence important?**

**A** The policy independence of the Bangko Sentral ng Pilipinas is guaranteed by no less than the Philippine Constitution (Article XII, Section 20). And under the 1993 enabling law which actually established the Bangko Sentral, one of the most important features of its policy independence is the dominance of the private sector in the policy-making Monetary Board. Five out of seven members come from the private sector. They serve on full-time basis and enjoy a fixed term of 6 years. Only one member is a Cabinet member designated by the President and he is not even the Finance Secretary. The Governor, who acts as Chairman, completes the Monetary Board.

The independence of the Bangko Sentral gives it the ability as well as the all-important credibility to conduct monetary policy in a manner that best ensures the stability of the value of the peso.

In the past, when the predecessor Central Bank of the Philippines was not as independent, effective monetary policy was often compromised by quasi-fiscal concerns such as subsidising certain key imports through multiple exchange rate arrangements, giving

preferential credits, and subsidising credit risks. As a result, the Central Bank ended up with huge financial losses that had to be partly compensated by taxing, through high reserve requirements, the banking system. Moreover, the residual losses hampered the ability of the Central Bank to conduct open market operations.

**Q What is the Bangko Sentral's exchange rate policy?**

**A** Pursuant to a floating exchange rate policy, the Bangko Sentral has generally allowed market forces to determine the exchange rate. Nonetheless, we don't hesitate to intervene in the foreign exchange market to prevent excessive fluctuations in the exchange rate and to keep adjustments on the exchange rate smooth and gradual.

For example, for the year 1994, the Bangko Sentral purchased foreign exchange totalling \$2.9 billion in a bid to absorb the heavy inflows of foreign capital into the country and mitigate the appreciating trend of the peso. In contrast, during the first three months of 1995, the Bangko Sentral became a net seller of foreign exchange amounting to \$173.4 million when the peso was hit by the contagion effects of the Mexican crisis and the Barings scandal.

**Q The Philippine economy has performed very well in recent years, growing faster, achieving lower inflation and avoiding balance of payments problems. How sustainable is the economic recovery?**

**A** The current economic recovery is markedly different from past short-lived recoveries in terms of the structural changes that have taken place. Most significantly, growth is mainly export-led. Last year, merchandise exports led by manufacturers, expanded by nearly 29 percent in US dollar terms. This year, for the first 5 months, export growth is currently running at about 30 percent. Investments in infrastructure and production facilities by both the government and private sectors have also dramatically picked up to address long-standing backlog and to build-up economic potentials. This has been most apparent in the rapid solution of the power crisis in the early 1990s but the sectoral coverage is actually wider. Electronics exports have also benefited in a big way from large-scale foreign investments to build facilities.

As a consequence of liberal reforms and greater political and economic stability, foreign investment inflows have also dramatically increased from just \$0.8 billion in 1991 to nearly \$6.8 billion in 1995. For the first quarter of 1996, investment inflows have already reached \$2.6 billion.

Stronger economic growth is also built on more solid financial footing. Gross national saving has recovered from 17.4 percent of GNP in 1993 to 21.5 percent in 1995. A major factor behind this is the marked turnaround in government finances, with the National Government starting to register overall fiscal surpluses beginning in 1994. The external position is also much stronger, reducing the chances of a growth-inhibiting foreign exchange crisis. In 1995, the Philippines limited the current account deficit to 2.5 percent of GNP, one of the lowest in the region. The official international reserves are also at an all-time high of about \$10.5 billion, equivalent to 3.3 months imports of goods and services.

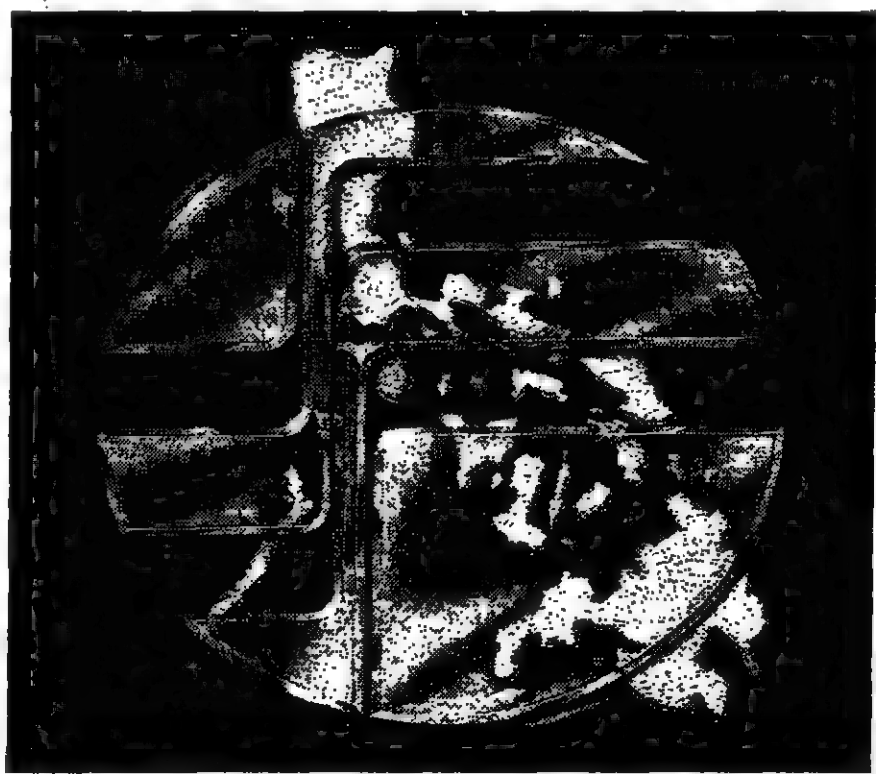
And last but not least, inflation remains under control. After a temporary spike to double digit in September 1995 as a result of a rice crisis, inflation is back to single-digit at 7.9 percent of August 1996. Furthermore, inflation is expected to be reduced to about 6 percent by December 1996.

**Q Bangko Sentral's lifting of the moratorium on new banks as well as the granting of ten new foreign banking licenses have instilled greater competition in the industry. What is the next phase reform of the banking industry and what is the timetable for implementation?**

**A** Our efforts in banking reform are now shifting towards further modernising our banking laws, including our laws covering capital adequacy. We have formed a high-level banking commission to formulate proposed changes to the General Banking Law that will, for example, allow us to adopt a form of the BIS capital adequacy standards.

Finally, we remain firmly committed to lower the reserve requirement to a level competitive with those prevailing in the region. The current reserve requirement is 15 percent. We like to eventually see it go down to single digit level. We would like to do this as soon as possible subject to stress. We have therefore recently issued comprehensive rules covering the derivatives activities of banking institutions. These rules, which are by the way based on current international best practices, set quite liberal in the sense that banks meeting minimum prudential and capability standards are allowed to undertake all kinds of foreign exchange and interest rate-based derivatives activity.

**Bangko Sentral ng Pilipinas**  
CENTRAL BANK OF THE PHILIPPINES  
MANILA, PHILIPPINES



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\*Euromoney 1993, 1994, 1995, 1996



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Investment by Anne Counsell

# Bullishness survives 6-month decline

Dip disguises 15 per cent rise in approved projects

A decline in foreign direct investment (FDI) figures for the first half of 1996 belies the visible manifestations of lively economic growth: a proliferation of industrial estates, rapidly rising exports, and foreign brand names on billboards and advertising hoardings.

The Board of Investments (BOI), which oversees projects eligible for incentives, registered a 46 per cent fall in the level of investments, from P146.56bn in the first six months of 1995 to P79.53 for the same period in 1996.

Special economic zones, former leaders in the investment attraction league, also fared less well this year than last. Total approved investments from new projects and expansion fell 18 per cent from P15.02bn to P12.38bn for the period. However, other investments from services enterprises, development costs of new zones and additional facilities amounting to P3.13bn were not included in the figures. Some economists believe the reported FDI levels may be lower than the reality due to such omissions and some underestimation in the FDI figures for build-operate-transfer projects (BOT), where the machinery is counted as an import but the equity investment is not.

The star performers were relative newcomers, the Subic Bay Metropolitan Authority and the Clark Development Corporation, where investments soared by 38 per cent and almost sevenfold (\$89.5 per cent) respectively, although from a low base, reflecting concerted efforts to redevelop both the former bases operated by the US military.

However, Melito Salazar,



Intel's \$350m testing plant, one of three in the world, under construction at Gateway business park

Photo: Anne Counsell

undersecretary at the BOI, is not displeased with the figures. Noting that the 1995 levels were inflated by one-off large investments in refined petroleum, petrochemicals, cement and telecommunications, Mr Salazar highlighted the increase in the number of BOI approved projects, up 16 per cent from 201 to 231 for the period, in the board's approved categories covering export projects, manufacturing industry, flagship infrastructure and service developments, energy and tourism. He said the generally favourable investment climate in the country resulted in 90 per cent of projects being realised; and expressed confidence that FDI levels would improve as the process of liberalisation continued and once uncertainties over tax reform were resolved.

The Philippine Economic Zone Authority (PEZA), an

umbrella organisation for the development of four government-owned and 15 privately-owned industrial estates or "special" zones, is similarly upbeat about prospects for further investment. PEZA has plans to develop an additional 10 economic zones at a cost of P8bn to tap into the steady interest from neighbouring countries seeking investment opportunities in the Philippines.

Asian investors have been at the forefront of the investment rankings, accounting for six of the 15 largest foreign investment projects between 1991 to 1995 in the manufacturing, utilities and tourism sectors. At the PEZA Rosario zone in Cavite, there are 58 South Korean companies producing a diverse range of manufactured goods from toys, apparel and stationery to electronics and components. Similarly, there is a notable

Taiwanese presence at Subic Bay where 38 companies have expressed interest in an industrial park being financed by Taipei. Acer is the anchor Taiwanese tenant at Subic with its mother-board assembly plant.

At the Laguna technopark 40km from Manila, Honda's establishment of a car assembly plant for Accord and Civic has been a magnet for a dozen of its related components suppliers. Of the 88 companies at Laguna, half are Japanese. Initially drawn to the Philippines' special export zone because of its four-year tax holiday, no duties on imports or exports and streamlined customs procedures, the majority of companies are unequivocal about another attraction - the country's inexpensive, English speaking and highly trainable work force. Mas-said Yanagita, the managing director of Matsushita (Philippines), says the company set up operations in the country to help offset the effects of the high yen. However, the quality (80 per cent of employees at the plant are college leavers) and efficiency of the labour force was a factor in Matsushita's decision to relocate all its

telecommunications manufacturing operations, apart from research and development, to the Philippines.

Almost as widespread as investors' praise for the workforce is their criticism of the infrastructure, notably urban road systems. There is some concern that the infrastructure may not be able to cope with the continuing rate of industrialisation, making it more of a potential handicap than a mere frustration.

Although the country has had acclaimed success with its build-operate-transfer (BOT) programme in the energy and water sectors, noticeable improvements in the transport sector have been less visible. "We are still chasing our tail to catch up," concedes Marc Dimal at the Ministry of Public Works and Highways. The toll-road construction programme is progressing despite teething troubles over pricing and one operator running into financial trouble. PT Citra of Indonesia is constructing a 18km elevated toll-road in Manila, while a Malaysian group recently won a \$800m contract to build a coastal expressway to the south of

Manila. Negotiations are also under way with foreign and local operators for a \$700m road to Subic Bay and a toll road to the industrial area of Batangas.

The government is reviewing its policy on investment incentives for priority projects as part of the ongoing tax reform bill and in response to grumbles from both economists and investors over the present system. Suggestions to scrap the menu of tax holidays and move towards a conventional tax-based system, as in Hong Kong, are under consideration. Tax exemptions from between three and five years are only of benefit to projects generating profits from the outset, and are of no use to capital intensive ventures. Under review is a system based on accelerated depreciation and net loss carry forward (Nolco), whereby losses incurred in the first years of operation could be offset against tax on profits in the future. The government is also aiming to reduce tariff protection rates from 10 per cent to 3 per cent. "There will be enough other incentives without protection," said Mr Salazar.

PROFILE Former US bases

## Battle for tourists

While Clark may lack the high profile of its sister at Subic Bay, it does have a good golf course and a better airport. These things count when the former bases, vacated by the US military in 1992, are vying for investments in tourism and leisure.

Both Subic and Clark enjoy free-port status and tax concessions, factors which have put them on the investment map for industrial, commercial and service projects. Subic got off to a head start with several high-profile deals, and has been a magnet for over 200 projects or businesses in all sectors, against 148 for Clark.

However, the Clark Development Corporation (CDC) is beginning to gain ground. In the first half of 1996, the CDC generated investments amounting to P8.08bn, against P6.62bn allocated to the Subic Bay Metropolitan Authority, which operates the free port. In distribution terms, Clark drew 7.6 per cent of total investments in the Philippines compared to 6.2 per cent for Subic.

The focus is now moving towards tourism. Both have existing hotel and gambling facilities, duty-free shopping, tours and sporting activities - not enough, however, to encourage visitors to put either place at the top of their holiday destination list. Subic and Clark both have plans to build on their existing resort facilities and to develop a range of attractions including sky-diving, theme parks, entertainment complexes and sporting facilities.

Subic, with its access to the South China Sea, has an obvious advantage for water sports, a yacht club, wharf projects, sailing facilities and a marina, although less than picturesque port developments and oil storage facilities

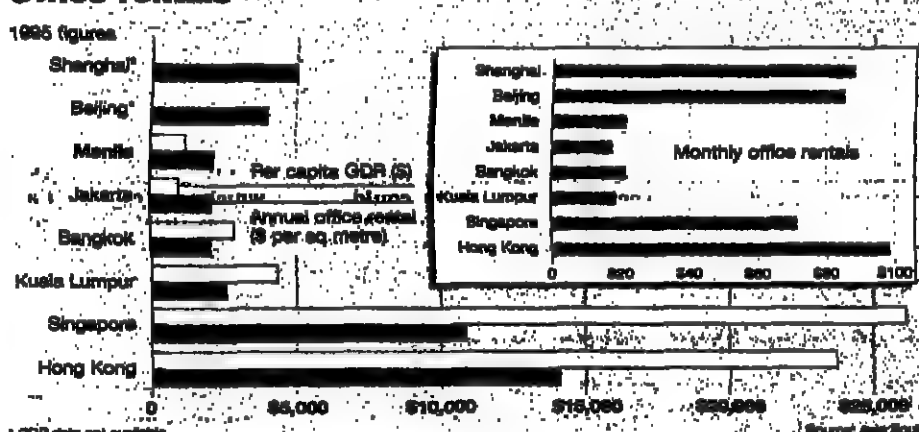
could dampen the allure. Clark has grand plans of its own. The CDC plans to landscape the Bayanlhan Park entrance to include artificial lagoons, an aviary, amphitheatre and picnic park at a cost of P40m. The aim is to provide an impressive and beckoning gateway to the facilities inside, a feature of which will be the Centennial Exposition Park, scheduled for completion next year, to host the Philippine's centennial celebration of its independence. It may happen almost a year after Subic's jamboree in hosting the Asia Pacific Economic Forum, but CDC officials believe it will help make Clark a focal point for the nation.

Clark, with its better road access from Manila and 33,600 ha of land for development against 14,000 at Subic, has the right ingredients to fulfil its investment and tourism ambitions. A key to realising its full potential, however, largely rests on a political decision over which airport facilities to upgrade first: Clark or Manila. Clark, which is already one of the largest airports in Asia with two 3.2 km runways capable of handling a Space Shuttle landing, aspires to become the country's premier airport. Philippine Airlines will begin operations from Clark next month to complement existing scheduled and charter flights by SEAir and Air Adu.

However, the Asian Emerging Dragons consortium, charged with developing the airports, is leaning towards proceeding with a approximately \$400m terminal upgrade at Manila, deferring the Clark revamp until 2002. CDC officials believe this is too late and could act as a brake on the zone's continuing growth.

Anne Counsell

### Office rentals



Property by Anne Counsell

## Boom continues

The question remains how much longer this headlong dash can continue

Now in its fourth year, the Philippine property boom shows no sign of abating. Construction sites abound in the central business districts of Makati and Ortigas, where vacancy rates are zero due to the high demand for quality office space; and land prices have doubled again over the past 12 months.

The question on everybody's lips is how much longer can this headlong dash continue? Property consultants and developers broadly agree that considerable pent-up demand, coupled with an influx of foreign companies seeking to open regional offices, will sustain upward momentum for at least the next two years, and probably up to 2000.

A recent Colliers Jardine report on regional property trends noted that the Philippines property market cycle still has room for growth due to its time lag behind markets in Thailand, South Korea, Indonesia, Malaysia and Taiwan. Separately, Richard Ellis associates highlighted the competitiveness of rents in Manila (\$81/sq m a month compared to \$150/sq m in Bombay, \$103/sq m in Hong Kong and \$467/sq m in Taipei). There is general consensus that the almost million sq m of grade A office space scheduled for completion in Makati in 1998 will be snapped up, since existing grade A office buildings provide only a woefully inadequate 372,000 sq m.

The outlook for Ortigas is somewhat mixed. Although residents such as the San Miguel brewery, the Asian Development Bank and large retail outlets, including the Megamall, are based in Ortigas, large areas are still underdeveloped - and unlike

Makati, it has not established itself as a premier business address. Office space in Ortigas sells at between P60,000 and P70,000 a square metre, compared to up to P100,000/sq m in Makati. Heavy traffic, a lack of parking and inadequate infrastructure are viewed as limiting factors in both Makati and Ortigas.

There are eight purpose-designed, integrated centres in various stages of development being touted as possible alternative business districts. Even if they do not supplant Makati and Ortigas, they will transform the city's skyline, layout, and character.

One contender for the crown of new premier business district is the Filinvest Corporate City (FCC) on a 244 ha site, about the size of downtown Manhattan in New York, 10 km south of Manila's international airport and 15 km from Makati. Land sales at the site began last year, and with prices ranging between P55,000 and P80,000 they are only 14 per cent of those in Makati.

Also in the running is the redevelopment of a military base bordering Makati. The 214 ha site, Fort Bonifacio, is being developed by a 17-member private consortium led by Metro Pacific, the Philippine arm of Hong Kong-based conglomerate First Pacific. Members of the consortium have signed memoranda of understanding enabling them to sell sites, lease or develop them with other contractors.

The master plan for the site has been approved, work is progressing on the design and development, and initial civil works for some sites has begun, according to Mr Bernard Durack, the managing director of operations at Fort Bonifacio Development Corporation. It will include a transport interchange to link the site to Clark and Subic Bay, Manila airport and outlying industrial development

areas. Dubbed a "city within a city," Fort Bonifacio will group commercial and residential space, followed by schools, a university, retail outlets, hotels, leisure facilities and a golf course.

The corporation has begun pre-selling land lots - at P170,000 to P180,000 a square metre, more than double the breakeven cost and five times the value of the consortium's controversial bid last year. Ayala Land, an established local real estate developer, which bid a total of P28bn for the Fort Bonifacio contract, came a distant second to Metro Pacific's P98bn offer, at the time viewed as an inflated and subsequently blamed for fueling steep rises in land costs.

Despite the pent-up demand for new office and residential space, there is some apprehension about the longer-term prospects for the Philippine market. One limiting factor, particularly in the middle residential market, could be an undeveloped mortgage and lending system, according to analysts. Some analysts also believe the total volume growth of new space, both office and residential, is close to peaking, and could turn the market from a seller's market into a buyers one. This has also given rise to predictions of rising vacancy rates in both office and residential developments over the next 18 months to two years.

There is also concern there may be an oversupply of residential housing, condominiums and flats, which has prompted some developers to begin offering purchasers spread payments. There is no talk of a property "crash," rather a realignment or levelling off of prices, with the possible exception of niche or specialist sectors. "Two years ago, you could invest anywhere and make money, now you need to be a bit more careful," said one analyst.

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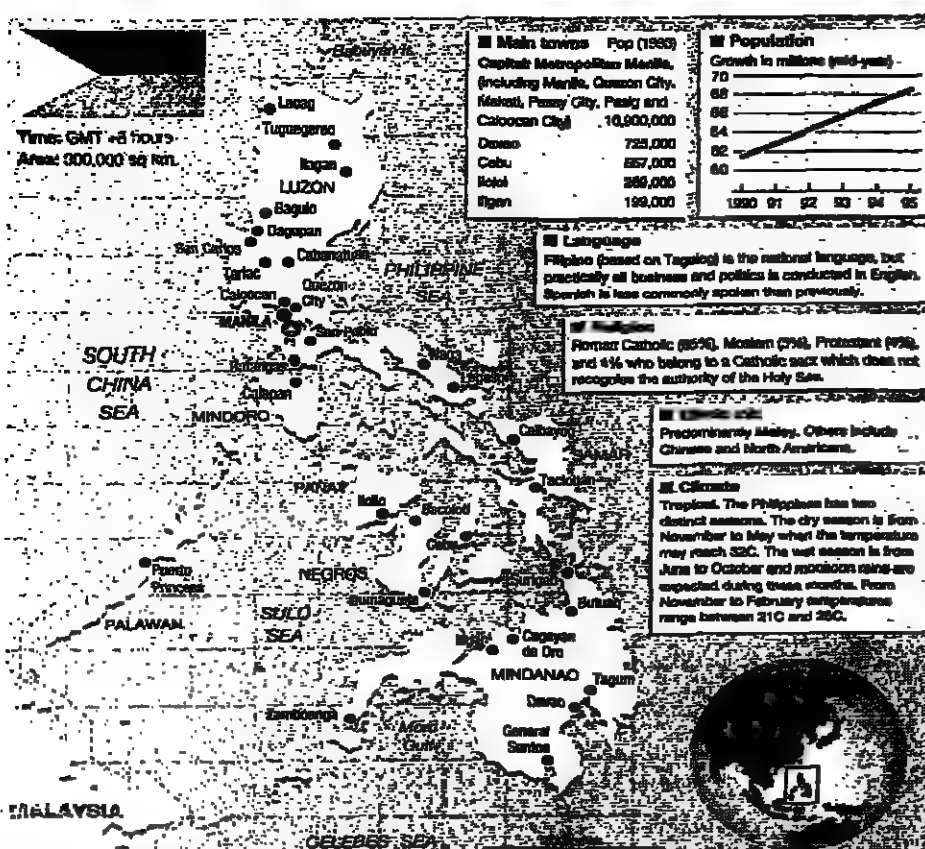
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## 6 THE PHILIPPINES



## Doing business

**Passports:** Required by all visitors. In some cases, other valid travel documents, complete with re-entry permits to ports of origin are accepted.

**Visas:** Except for transit visitors, visas are not required for UK nationals for a stay of up to 21 days provided confirmed return or onward air or sea tickets are held prior to arrival. Extensions are possible, obtainable from diplomatic or consular offices.

**Health control:** Mandatory. Vaccination certificates required for yellow fever if travelling from an infected area and, sometimes, cholera. Advisable: Anti-malaria precautions and vaccinations against tetanus and typhoid.

**Corruption:** Corruption is a problem. There is no limit on the amount of foreign currency which may be imported, but amounts in excess of US\$5,000 must be declared. Foreign currency exports are limited to amounts declared on entry. No more than P500 may be imported.

**Customs:** Importation of arms, explosives, pornography, sedition, publications and gambling equipment are prohibited.

**Taxes:** National airline: Philippine Airlines (PAL). Many other major airlines connect. Main airport: Ninoy Aquino International (MNL), 12km south of Manila. Tax: International departures P500, excluding travel, passenger and children under two years (Apr 1995). Shipping: Several shipping lines operate cargo and containerised freight services.

**Driving:** Self-drive and chauffeur-driven car hire is available. International driving licences are acceptable. Driving is on the right-hand side of the road. Local driving habits make traffic conditions extremely difficult. Buses: Numerous inexpensive bus and jeep-type services operate in and around main centres. They can be crowded, and knowledge of the area is recommended before travelling by bus. Rail: In Metro Manila, the mass transport system is complemented by a 15 km elevated Light Rail Transport (LRT) system. Philippine National Railways (PNR) also operates between La Union (North Luzon) and Legazpi (South Luzon). Taxis: Metered taxis are available. Tipping is not customary.

**Service charges:** A service charge of 10 per cent and a government tax of 10 per cent are usually added to bills.

**Credit:** Major credit cards accepted.

**Public holidays:** Fixed dates: 1 Jan (New Year's Day), 9 Apr (Araw ng Kagitingan or Hero's Day), 1 May (Labour Day), 12 Jun (Independence Day), 1 Nov (All Saints' Day), 30 Nov (Bonifacio Day), 25 Dec (Christmas Day), 30 Dec (Rizal Day), 31 Dec. Variable dates: Maundy Thursday.

## Good Friday, National Heroes day (last Sun in Aug)

**Working hours:** Working hours vary. Some banks and offices open for a half day on Sat and, in the Manila area, many shops open for a half day on Sun. Business: (Mon-Fri) 0800 - 1200/1300, 1300/1400 - 1700 (Sat) 0800 - 1200. Government: (Mon-Fri) 0730 - 1130, 1230 - 1330 or 0800 - 1200, 1300 - 1700. Banking: (Mon-Fri) 0800 - 1800. Shops: (Mon-Sat) 0900 - 1200, 1400 - 1800.

**Telecommunications:** International telecommunications are via satellite communications, telegrams, microwave relay stations and undersea cables. Telephones: Dialling code for the Philippines, IDD access code + 63 followed by area code (2 for Manila), followed by subscriber's number. Telex: Public telex facilities are operated by servers. Telex facilities are also available at good hotels. Telegram service is available.

**Banking:** Central bank: Central Bank of the Philippines. Main banks: There are 32 commercial banks. Foreign banks: The Chartered Bank, Hongkong and Shanghai Banking Corp, Citibank, and Bank of America. Government-specified banks: Land Bank of the Philippines, Philippine Amanah Bank and the Development Bank of the Philippines.

**Trade fairs:** Contact the Philippine Convention Bureau, 4th Floor, Legazpi Towers, 300 Roxas Boulevard, Manila (tel: 575-031 to 40-804).

**Chamber of Commerce:** Philippine Chamber of Commerce and Industries, CCP Building, Magallanes Drive, Intramuros, Manila 2801 (tel: 405-0852).

**International tourist office:** Tourism Council of the Philippines, Suite 226, PICC Building CCP Complex, Roxas Blvd, Metro Manila (tel: 531-2404, 533-1422).

**Key ministries:** Department of Finance, Finance Building, Valencia Circle, Ermita, Manila (tel: 483-854, 402-288, 474-427 fax 521-0463). Minister: Roberto de Ocampo (Finance). Department of Foreign Affairs, DFA Building, 2330 Roxas Boulevard, 1300 Pasay City (tel: 832-1597). Minister: Domingo Siazon. Department of Trade & Industry, 4/F Industry and Investments Building, 365 San Gil J Puyat Avenue, Makati, Metro Manila (tel: 815-1831/33 fax 853-555). Minister: Raimundo Navarro (Trade & Industry).

**Stock exchange:** Two stock exchanges operate in Metro Manila.

**Taxation:** The corporate income tax rate is 35%. Personal income tax rates range from zero on net income of P5,000 (8191) to 30% on annual income of more than P500,000.



Fidel Ramos, President of the Philippines

**Government and constitution**

**Head of state:** President Fidel Ramos, head of the ruling Lakas-NUJO coalition party.

**House of Representatives (304 members):** Lakas-NUJO 191 seats, LDP-Laban 88 seats, NPO 59 seats, Liberal Party 59 seats, Others 8 seats.

**Senate (24 members):** Liberal Democratic Party (LDP) 14 seats, Lakas-NUJO (National Union of Christian Democrats) 4 seats, National People's Coalition 5 seats, Liberal Party 2 seats, Independent 1 seat, People's Reform Party 1 seat.

**Next elections:** May 1998 (presidential and congressional). May 1998 House of Representatives & half of the Senate.

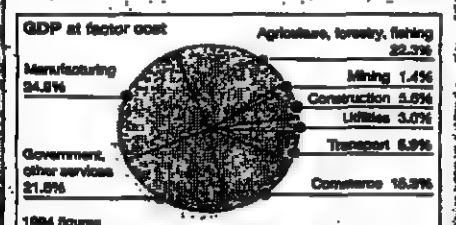
**Next election:** May 1998 (presidential and congressional).

**Legal system:** Based on common law. The 1987 constitution contains Bill of Rights and provides a judiciary with Supreme Court at apex.

**International organisations (membership):** APEC, ASEAN, ASPAC, Asian Development Bank (ADB), COC, Colombo Plan (CP), EU Trade and Co-operation Agreement, ESOAP, FAO, G-94, G-77, GATT, IAEA, ICDO, IDA, IFAD, ILO, IMF, INTELSTAT, INTERPOL, IPU, IRC, ISO, ITU, MIGA, NAM, OIC (observer), UN, UNESCO, UPU, WFTU, WHO, WIPO, WML, World Bank, WTO.

## Economic summary

	1994	1995
Total GDP (est. P bn)	1,860.8	1,905.3
Total GDP growth (%)	4.8	4.9
GDP per capita (US \$)	244	248
Consumer price inflation (%)	5.5	5.1
Merchandise balance (\$ bn)	7.75	8.81
Prime interest rate, year-end (%)	15	15
Total external debt (\$ bn)	36.1	43.2
Unemployment (as % of workforce)	8.4	8.3
Plant balance (% of GDP)	1.1	0.6
Gross international reserves (\$ bn)	7.32	7.8
Money supply growth (%)	26.9	26.3
Current account balance (\$ bn)	-2,840	-1,910
Exports (as % of GDP)	15.45	17.28
Imports (as % of GDP)	21.55	19.40



## Principal exports

Electronics equipment	1994 total: \$1,458m
Garments	
Copper	
Philippines	

## Principal imports

Plants for manufacture of electrical machinery	1994 total: \$1,258m
Telecommunication equipment	
Power generation equipment	
Manufactured machinery	
Mineral fuels	

**Hotels**

Calatagan, Batangas, Luzon Punta Saliente, PO Box 731, 4001 (tel: 884-154, 815-9711 fax 817-1330).

Cebu Plaza, Barrio Nival, Lahug (tel: 81-450, 82-431/58, 82-441/49 fax 817-3434).

Magellan International, Gorrondo Avenue, Lahug, PO Box 8401 (tel: 74-613/25 to 24-728).

Montebello Villa, Barilad, 6401 (tel: 86-021/31, 86-539 to 66-030).

**MONTE PINO.** Park Place, Fuente Camena (tel: 211-131 fax 817-3434).

Rajah, Fuente Camena Street, PO Box 864, 6401 (tel: 86-281).

Deves City, Deves de Sar Mindanao Deves Insular Inc. Continental, Laran, 9501, PO Box 144 (tel: 76-051/61 fax 62-889).

Manila Admiral, 2138 Roxas Boulevard, PO Box 7155 (tel: 572-081/94 fax 522-2018).

**Bayview Prince, Roxas Boulevard and UN Avenue, PO Box 771, 2801 (tel: 503-051 fax 521-5773).**

Cebuview-Park Sheraton, Corner Vito Cruz and M. A. Adriano Streets, Manila, PO Box 117 (tel: 522-1011 fax 521-3413).

Holiday Inn Manila, 3001 Roxas Boulevard, Pasay City, 3126 (tel: 587-861/60 fax 522-3995).

Hyatt Regency Manila, 2702 Roxas Boulevard, Pasay City (tel: 531-2511 fax 533-5913).

Inter-Continental Manila, Hotel Drive, Ayala Avenue, Makati, PO Box 731 (tel: 815-9711 fax 817-1330).

Marriott Oriental, Manila Avenue, Makati, PO Box 1038 (tel: 816-3601 fax 817-2472).

Manila, Ritz Carlton Manila, PO Box 307 (tel: 470-011 fax 471-124).

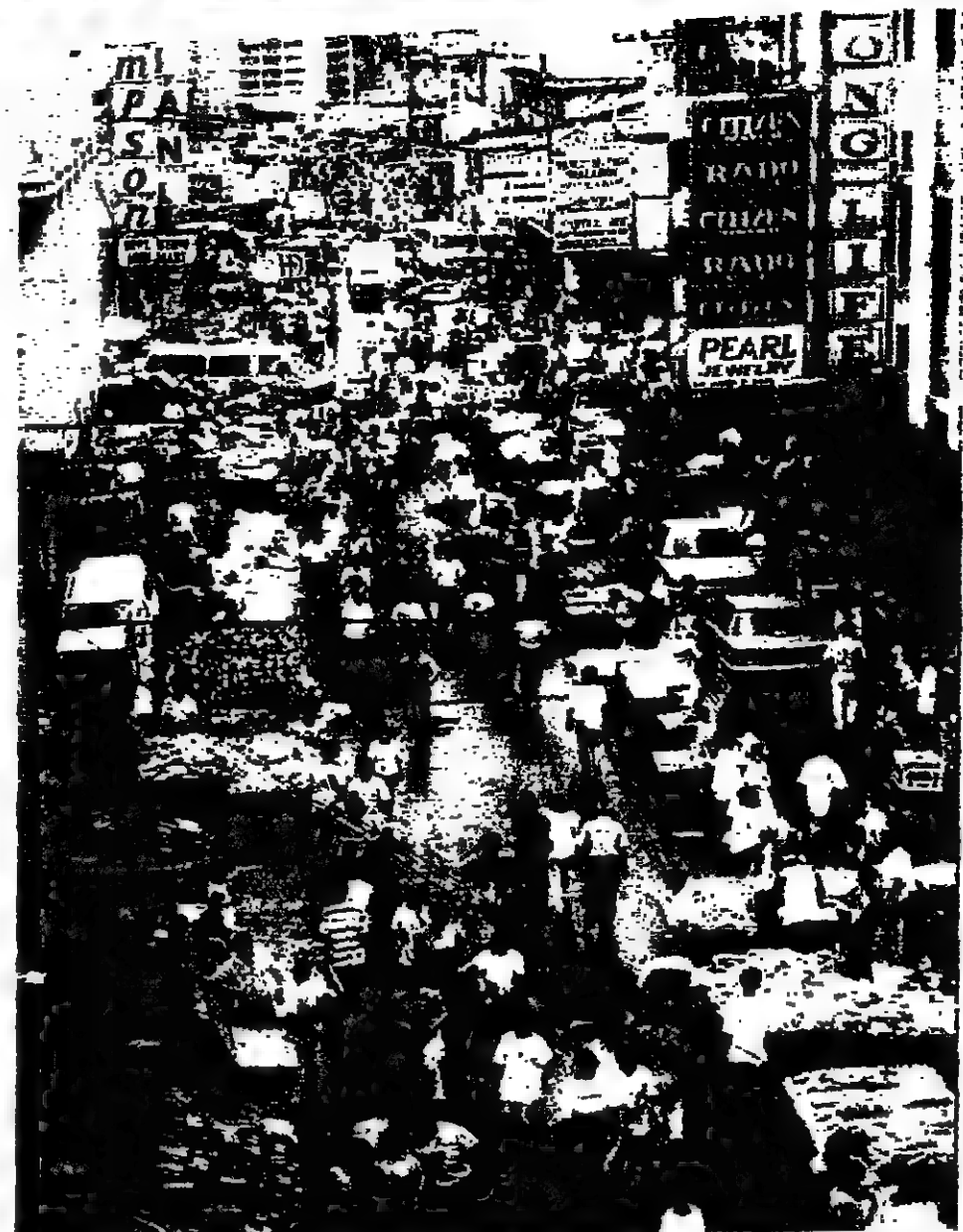
Manila Garden, 4th Quadrant.

Makati Commercial Centre, Makati (tel: 810-4101 fax 817-1892).

Manila Hilton International, United Nations Avenue, Ermita, PO Box 4430 (tel: 573-711 to 63-597).

Manila Royal, Carlos Palanca Street, Santa Cruz, PO Box 2999 (tel: 498-521 to 40-334).

Westin Philippine Plaza, Roxas Boulevard, PO Box 1146 (tel: 832-0701 fax 532-3485).



It might look like hell to the weary traveller, but there's more to Manila than the polluted inferno which initially meets the eye. Photos: Patrick Muggioni

Travel by Edward Lucas

## Madness in the streets of Manila

What starts off looking like a holiday in hell turns out to have a quirky charm

Just arrived in Manila? Been waiting two hours for your luggage? Spent three hours in a traffic jam en route to the hotel? Don't turn back. Anyone can admit defeat and plenty do. It might look like hell. But remember, there's more to Manila than the polluted inferno which meets the eye.

Aesthetically, of course, it's not up to much. If you're looking for architectural reminders of the Spanish colonial era, prepare to be disappointed. The cobblestone plaza is long out of fashion. Don't bother hunting too hard for your favourite paella dish either. You're more likely to get a mouldy hamburger - though to be fair, there are some great European and Chinese restaurants nowadays.

With a few notable exceptions, the secrets of Manila are decidedly not to be found in its buildings or its cuisine. Nor can they be located in the city's bookshops (meandering tomes of romantic pulp and "How to be a successful businessman" do-it-yourself guides) or indeed its "grille bars" where overweight foreigners chat up Filipino teenagers.

Manila's charms don't leap off the postcard to greet you. They have to be hunted down in unlikely corners and in the most serendipitous of circumstances. Take the Manila Memorial Park, final resting place of many of the country's great and good, including Ninoy Aquino, husband of former president Cory Aquino, gunned down on his return from exile in 1982.

Manila Memorial Park and adjacent Loyola Park's grandiose catholic tombs stretch mile after mile. Gothic row after row. They are truly cities of the dead. Some of the tombs reach two storeys high. Many are thoughtfully equipped with electricity and running water for the comfort of the deceased. And some are actually inhabited by descendants of the dead who no doubt save cash, and derive comfort, from living inside the family tomb.

It would perhaps be bordering on hyperbole to recommend a cemetery crawl around the city's memorial parks. But these are just two of many. The Chinese cemetery is another eye-opener. If visited on the relevant ancestor-worshipping dates, The combination of catholicism and Chinese spiritualism is, to say the least, unusual. Imagine genuflecting to the Virgin Mary then burning a few "after-life" dollar bills just in case Rome was mistaken.

If you want a bit of quiet after that disorienting experience, head towards the American War Graves cemetery next to Forbes Park, a "village" (urban suburb) for the rich and lucky. Situated on a hill overlooking Bonifacio - a 240 ha plot which is being developed as Manila's 21st century business district - thousands of white graves stand in stark, protestant contrast to Manila's other graveyards. Block out the rest and it could be Flanders. The experience is a poignant reminder of what happened to Manila in 1945.

Indeed, most of the blame for the town's lack of structure or focus can be laid at the door of the retreating Japanese armies in 1945 who spurned General Douglas MacArthur's offer to declare Manila an "open city". The upshot, after an orgy of levelling and co-ordinated sabotage, was the worst damaged allied city barring Warsaw. Unlike Warsaw, though, Manila had very little agreed "national" culture to subsequently draw upon.

The archipelago's jumble of Malay, Chinese, Spanish and even Indian ethnic groups in part explains the country's elusive national identity. As the only predominantly Christian country in east Asia and the only state, with the exception perhaps of Malaysia and Singapore, where the de facto national language is English, the Philippines defies convenient typcasting. As by far the largest city in the country with an endless accretion and a population approaching 12m, Manila aptly symbolises this jumble.

A quick visit to Mega Mall next to the Asian Development Bank's headquarters in Ortigas - another mushrooming business district silhouetted by the rising skyline of more contemporary skyscrapers of the latest real estate boom - gives insights few indoor shopping centres can provide elsewhere. As the largest indoor mall in Asia, covering 331,000 sq m, this vast box often seems to be the middle class's favourite weekend retreat.

Some among the 1.5m who frequent it every weekend do, in fact, spend the better part of their spare time in Mega Mall on its ice skating rink, inside its cavernous cinema halls or browsing around one of the endless department stores. Doubtless the same people will flock to the Mall of Asia, a 500,000 sq m shopping centre which will pip the mall in Edmondston, Canada, to the world when it is completed in 2000 or thereabouts.

The mall, which is to be built on reclaimed land off Roxas Boulevard, Manila's seafaring road which used to boast the most beautiful sunset in Asia, will overlook the Bay of Manila. Once a bay of schooners and host of

course, to the annual visit of the Spanish trading galleon (which journeyed to Acapulco, helping to keep the colony and its "fratocracy" of priests in check), the water now bobs with merchant tankers and fleets of "power barges" supplying Manila with electricity.

This cathedral to shopping will rise side-by-side to the kitsch convention and cultural centres built by Imelda Marcos during the 1970s and 1980s on a previous frenzy of land reclamation. Among these monuments to vanity, is one which, according to a few brave journalists, contains the bones of construction workers who fell victim to the first lady's tight deadlines and were left to submerge in tombs of cement. It is, they say, haunted.

Further down the boulevard towards the Manila Hotel - the post and pre-war headquarters of General MacArthur - stands Intramuros, probably the most evocative monument to the city's Hispanic era. The collection of churches, indoor courtyards and old city battlements seem quaint next to the Intramuros golf course and its well-heeled putters.

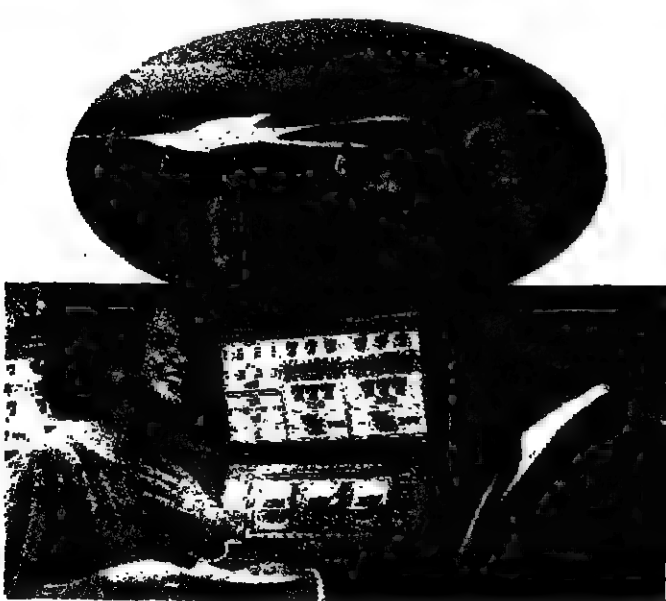
The course, one of many to have sprouted in the last five years, sits more comfortably with the town's Karaoke dens and cosmopolitan hotels than the old city walls which overlook it. Indeed, with golf membership prices at the most expensive clubs exceeding US\$1m, Manila is arguably closer to Tokyo than Madrid or Mexico City.

A few hundred metres from Intramuros, the 10-lane EDSA (Epifanio de los Santos) highway, with its the snail's pace queues of colourful jeepneys, Japanese cars and second-hand Korean buses, holds clues to events of more contemporary historical significance.

Ten years ago, in the build-up to the peaceful overthrow of the late president Ferdinand Marcos, the highway was jam-packed with students, AWOL soldiers, maids and brazen nuns sticking flowers into the rows of tanks confronting them. Further up EDSA, at the "Ten years after" pub in a former church where the bar has replaced the altar, more obvious pointers can be found. The bar's riotous nostalgic drums out a vivacity more representative of Manila than its few remaining Spanish churches.

This charm, often well-concealed and frequently exasperating, can be found in the city's inhabitants - that contradictory mass of semi-Americanised, semi-Asian, sometime-catholic but imitatively Filipino people. In retrospect, and with, perhaps, a modicum of surprise, that two-hour wait at the luggage belt might seem well worth the hassle.

## Putts...



## Jackpots.

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## FT SURVEYS INFORMATION

Recent surveys or surveys coming up soon which focus on or feature this region, include the following:

The World Economy	Friday September 27
Business Travel	Monday October 7
FT Exporter	Wednesday October 9
Taiwan	Thursday October 10
Investing in Pakistan	Friday November 1
Indian Software	Wednesday November 6
South Korea	Friday November 15
Vietnam	Thursday November 21
Japanese Industry	Thursday December 5
Thailand	Thursday December 5

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# Europe's most respected companies

The quality and implementation of corporate strategy are high on the list of attributes admired by top managers. And for

the third year running, Guy de Jonquières reports, they believe one company above all exemplifies these qualities



Europe's top managers are, it seems, remarkably consistent when it comes to judging corporate excellence. For the third year running they have voted ABB, the Swedish-Swiss engineering group, Europe's most respected company in a survey carried out by the Financial Times and Price Waterhouse.

Though ABB again achieved an impressive score on a wide range of criteria, it is not alone in establishing itself as a firm favourite. Nine of this year's 10 most respected companies also featured in last year's top 10 - though there were some changes in the ranking order.

British Airways moved up a place to second position, having ahead of Nestlé of Switzerland. Siemens of Germany rose two places, while British Petroleum entered the top 10 for the first time. Britain's Marks & Spencer and the Anglo-Dutch Unilever slipped slightly, while Fiat of Italy - joint No.10 last year - tumbled out of the league table.

However, the survey also yielded some surprises, which cast an interesting perspective on its other findings. Asked which company they respected most, regardless of its country of origin, European managers plumped for a substantial margin for General Electric of the US. ABB was relegated to second position, shared with Microsoft of the US.

Furthermore, no fewer than six of the 11 top-ranked companies in this category are US-based, while companies from other non-European countries barely rate a mention. That suggests not only that many of Europe's top executives look across the Atlantic for inspiration but that Japanese corporate prowess no longer enthralled them as it did in the 1980s.

Widening the survey to include views on companies based outside Europe is one of several innovations this year. The questionnaire has been refined and expanded to pinpoint more precisely the most highly-prized corporate attributes - and which companies are perceived to possess them.

Respondents were also asked to name the European business leader they most respect, the companies they use as performance benchmarks, and the main challenges confronting business. Finally, the survey was

1	ABB	Company	ABB	1995	1
		Country	Sweden/Switzerland	1995	1
		Sector	Engineering	1994	1
		Turnover (\$m)	36,730.00		
		R.O.C.E.	33.44%		
2	British Airways	Company	British Airways	1995	2
		Country	United Kingdom	1995	2
		Sector	Transport	1994	4
		Turnover (\$m)	3,240.00		
		R.O.C.E.	11.44%		
3	Nestlé	Company	Nestlé	1995	3
		Country	Switzerland	1995	2
		Sector	Food products	1994	6
		Turnover (\$m)	30,774.30		
		R.O.C.E.	18.89%		

4	BMW	Company	BMW	1995	4
		Country	Germany	1995	4
		Sector	Automobiles	1994	8
		Turnover (\$m)	31,130.00		
		R.O.C.E.	4.49%		
5	Royal Dutch/Shell	Company	Royal Dutch/Shell	1995	5
		Country	Netherlands/UK	1995	5
		Sector	Oil, gas and mining	1994	3
		Turnover (\$m)	107,816.00		
		R.O.C.E.	14.59%		
6	Siemens	Company	Siemens	1995	6
		Country	Germany	1995	8
		Sector	Electronics	1994	21
		Turnover (\$m)	30,861.00		
		R.O.C.E.	2.4%		

\*Return on capital employed is based on profit before interest and tax, after exceptional items. \*\*The average exchange rates for August 1995 have been used for currency conversions.

Company	Country	Sector	Turnover (\$m)	R.O.C.E. (%)	1995	1994	1993
Martin & Spitznagel	UK	Legal services	11,216.30	18.79	7	-5	-1
British Petroleum	UK	Oil, gas & mining	66,967.00	9.76	8	-15	-
Unilever	Netherlands/UK	Food products	66,824.80	21.80	9	7	5
Roche	Switzerland	Pharmaceuticals & healthcare	12,242.30	9.21	10	-10	-
Bayer	Germany	Chemicals, rubber & plastics	30,074.30	11.60	-11	-	-
Ericsson	Sweden	Electronics & electrical components	14,927.30	17.71	-11	9	-
Danisco	France	Food products	15,556.30	7.22	-13	-15	-
Air Liquide	France	Chemicals, rubber & plastics	6,350.30	13.51	-14	-12	12
Philips	Netherlands	Electronics and electrical components	38,771.00	15.21	-14	-19	-
ING	Netherlands	Banking and financial institutions	N/A	17.48	-16	-25	-
Saint Gobain	France	Construction, homebuilding and building materials	13,851.10	11.08	-16	-	-
Swissair	Switzerland	Transport	5,508.30	-1.23	-16	-26	-
Nokia	Finland	Electronics and electrical components	8,221.80	16.54	-19	-26	-
Bertelsmann	Germany	Media, printing and advertising	13,666.30	16.86	-20	-	-
Deutsche Bank	Germany	Banking and financial institutions	N/A	12.45	-20	-	7
Reuters	UK	Media, printing and advertising	4,151.30	58.76	-20	14	-

sent to chief executives and presidents of more companies - more than 1,400 compared with 1,000 last year.

Differences in methodology mean that too much should not be read into variations or contrasts between the findings this year and last. Nor does the survey pretend to be a scientific

exercise. Nonetheless, it points to some clear conclusions about the values and priorities of European managers.

Overall, the most highly-prized corporate attributes emerge as quality and implementation of corporate strategy, management of complexity, and skill at balancing the interests of customers,

employees or shareholders. Branding, basic financial measures of success, innovation and corporate ethics are all considered less important.

These perceptions are borne out by ABB's score. As well as being the overall winner, it is rated exceptionally highly for business performance, corporate

strategy and maximising employee potential. It is also cited most frequently as the benchmark against which other companies measure their performance.

Indeed, admiration for ABB's achievements is overshadowed only by esteem for Mr Percy Barnevik, its president. Named

Europe's most respected business leader, he attracted more votes than were cast for his company in the overall rankings: he was particularly praised for strategic vision and focus.

The ability to achieve sustained success by adopting long-term strategies, while adjusting quickly to changing

market conditions, is especially highly regarded. The findings suggest that companies which score well on these criteria can ride out short-term reverses or blemishes to their reputation.

In this context, two findings are striking. Despite controversy over the disposal of its Brent Spar oil rig, Shell was named as the company which deals best with environmental issues. Meanwhile, adverse publicity over BA's "dirty tricks" campaign against Virgin Airlines did not prevent BA taking joint sixth place among companies respected for demonstrating the highest standards of ethical conduct.

The findings also suggest that the European companies most likely to be held in high esteem are large and involved in manufacturing or heavy industry. Despite the growing economic importance of services businesses, these are poorly represented at the upper levels of the overall rankings. Honourable exceptions include BA, Marks & Spencer, ING, Swissair, Deutsche Bank and Reuters.

Furthermore, the most highly respected companies tend to be long-established. Virgin, the only genuinely young company in last year's top 30, failed to make the grade this year, though it is ranked first for innovation.

The only other youthful concern to attract wide support is SAP, a fast-growing German software company. It is rated highly for innovation and maximising long-term value to shareholders.

But if that suggests that European managers can be cautious about the new, they had no hesitations about naming Novartis - a company which does not yet formally exist - as the best-judged recent merger or acquisition. As of early September, consummation of this planned merger of Ciba and Sandoz, two Swiss pharmaceutical companies, was still awaiting US anti-trust clearance.

Though the survey sample was geographically broadly based, the most highly regarded companies are overwhelmingly from northern Europe. Companies from the south are conspicuously absent from the overall league table, and poorly represented in rankings by specific attributes.

Among the few exceptions are

Continued on page 4



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## 2 EUROPE'S MOST RESPECTED COMPANIES

Analysis of attributes: by Geoff Dyer

## How companies view each other

The category of most innovative company gave newer groups a chance to shine

In this year's survey of Europe's Most Respected Companies the series of questions on specific attributes was expanded to get a more detailed view of how company executives view their peers.

The answers to these queries - which covered topics such as corporate strategy, brand image and the use of new technology - threw up some of the most interesting findings.

The companies which scored highly in the overall table had a strong showing in these specific categories. Indeed, both ABB and British Airways, the overall

numbers one and two, came top in four separate categories. However these companies by no means dominated the results.

Perhaps the most surprising response from any of these categories was the nomination of Shell as the European company which is best at dealing with environmental issues.

This, in a year in which Shell's name was persistently in the news connected with environmental controversy - first with the failed attempt to sink the Brent Spar terminal and then through its oil activities in Nigeria, Shell also came second in the category of companies which show the highest standard of ethical conduct. On this topic it was beaten by Marks and Spencer, which has also faced adverse publicity this year over allegations - both

denied by the company - that it took advantage of child labour in developing countries.

And while few will be surprised that Body Shop, the UK green cosmetics group, was mentioned in this category - it came 5th - the appearance of Benetton, which has been widely criticised for some of its advertising, was unexpected.

Further evidence that companies can put bouts of adverse publicity behind them, at least in the eyes of their peers, came with British Airways' nomination, as the company which provides the highest level of customer satisfaction - despite the allegation of a "dirty tricks" campaign against Virgin Airways.

In a survey dominated by companies with long-established names, the category of most innovative

company gave some newer groups a chance to shine, with Virgin coming top.

The survey produced some results which contradict the widely-held view that Anglo-Saxon capitalism breeds short-termism and an obsession with shareholder value.

When the question was asked which companies were best at balancing the interests of shareholders, employees and customers - sometimes known as the concept of stakeholder companies - the winner was BA, with Marks and Spencer in second place. BP, Reuters and Rentokil were also mentioned.

The same companies were commended for maximising employee potential and were also commended for providing long-term value, qualities more often associated with continental

companies. UK companies also scored highly for coping with the transition from state sector to private ownership, which is not wholly surprising given that the UK started the process of privatisation earlier than other countries. BA picked up nearly 50 per cent of the votes for the top 10 companies in this section.

KPN, the Dutch telecoms company, and Repsol, the Spanish energy conglomerate, also did well.

Nokia, the Finnish mobile phone manufacturer, Reuters and Ericsson, were clear leaders in the category of making the most effective use of technology. First Direct, Midland Bank's telephone banking service, came ninth, suggesting a confusion in the replies to this question between high-tech companies and taking advantage of

technology.

The companies which were voted to have shown the biggest improvement included ING, the Dutch financial services group, which acquired Barings when it collapsed last year. Lomotto, the Italian maker of spectacles, and Asda, the UK retailer, both of which did not feature highly elsewhere in the survey, scored well in this category.

The winners of the industry sectors demonstrated the persistence of national reputations. The automobiles and auto parts sector was dominated by German companies, with BMW scoring twice as many votes as its nearest rival, Robert Bosch.

At the same time UK groups scored highly in the media, printing and advertising sectors and in retail and distribution. Swiss

companies headed the pharmaceuticals sector, with Novartis, coming a creditable second behind Roche, given that the proposed merger between Sandoz and Ciba which brought it into being was so recent.

The closest contest was in oil, gas and mining, with Shell just pipping BP, while the transport sector is dominated by airlines, BA beating Swissair and Lufthansa.

In the insurance sector, Allianz of Germany was the winner, although ING of the Netherlands received more votes in the overall category, coming 18th equal.

Holderbank of Switzerland, one of the world's largest cement producers, which comfortably won the construction, housebuilding and building material category, was also notable for not receiving any votes from its own country.

Competitors in five other countries nominated the group.

RWE, Germany's largest electricity group, which came second in the electricity and water sector, also only received votes from peers outside its country. It was beaten by PowerGen, the recently privatised UK generator, whose main rival, National Power, did not make it into the top three.

The country winners repeated many of last year's results.

With BMW of Germany, Nokia of Finland and El Corte Ingles of Spain coming top again.

However, Fiat's improved fortunes over the last year were reflected in its promotion to the top place in Italy.

The increased scope of this year's survey allowed for inclusion of winners for several countries from which there had not been sufficient information in the past.

VA Technology, the Austrian engineering group, Legat, the Danish toy-maker, and Sonae, the Portuguese conglomerate, were all clear winners in their countries.

## Sector rankings

Rank	Company	Country
<b>Automotive/trucks &amp; parts</b>		
1	BMW	Germany
2	Robert Bosch	Germany
3	Volkswagen	Germany
4	Fiat	Italy
<b>Banks &amp; financial institutions</b>		
1	Deutsche Bank	Germany
2	Lloyds TSB	UK
3	ABN Amro	Netherlands
<b>Beverages &amp; tobacco</b>		
1	LVNH	France
2	Carlsberg	Denmark
3	Heineken	Netherlands
<b>Chemicals</b>		
1	Holderbank	Switzerland
2	Lafarge	France
3	Novartis	Switzerland
<b>Electronics</b>		
1	Siemens	Germany
2	Electrolux	Sweden
3	Nokia	Finland
<b>Electricity &amp; water</b>		
1	PowerGen	UK
2	RWE	Germany
3	Lyonnais Des Eaux	France
<b>Engineering</b>		
1	ABB	Sweden/Switzerland
2	Atlas Copco	Sweden
3	Kvaerner	Norway
<b>Food &amp; drink</b>		
1	Unilever	Netherlands/UK
2	Unilever	Netherlands/UK
3	Danone	France
<b>Homehold</b>		
1	Max Mara	Italy
2	Hugo Boss	Germany
<b>Insurance</b>		
1	Allianz	Germany
2	ING	Netherlands
3	Münchener	Germany
<b>Media, printing &amp; advertising</b>		
1	Reuters	UK
2	Bertelsmann	Germany
3	Read Elsevier	Netherlands/UK
<b>Oil, gas &amp; mining</b>		
1	Royal Dutch Shell	Netherlands/UK
2	British Petroleum	UK
3	VEBA	Germany
<b>Pharmaceuticals &amp; healthcare</b>		
1	Roche	Switzerland
2	Novartis	Switzerland
3	Glaxo-Wellcome	UK
<b>Retail &amp; distribution</b>		
1	Tesco	UK
2	Carrefour	France
3	Marks & Spencer	UK
<b>Telecommunications</b>		
1	British Telecom	UK
2	PTT Post	Netherlands
3	Telia	Sweden
<b>Transport &amp; transport services</b>		
1	British Airways	UK
2	Swire	Switzerland
3	Lufthansa	Germany



Bill Gates: Microsoft came a joint second



Jack Welch: heads General Electric, which tops the world table

World leagues: by Guy de Jonquieres

## US top of the table

Executives hold up American companies as models of management

It is not that long ago that many European business people - and some of their transatlantic counterparts - viewed corporate America with ill-concealed disdain. Prey to financial markets apparently fixated with short-term returns, out-maneuvred by Japanese competitors and often wrestling with obsolete working practices, many big US companies seemed on the road to oblivion.

What a difference a few years can make. From the survey findings in the world table, it appears that European managers not only believe that US companies are on the comeback trail, but hold them up as models of impressive management.

None more so than General Electric, which is held in higher respect than any European company.

Respondents particularly praised its long-term business performance, exceptional profitability and its success in defying the current bias against corpo-

## Most respected companies in the world

Rank	Company	Country	No of countries voting	% votes
1	General Electric	US	8	14.5
2	ABB	Swe/Switz	8	9.9
3	Microsoft	US	8	9.9
4	British Airways	UK	5	7.6
5	Coca-Cola	US	8	6.9
6	Nestlé	Switzerland	5	3.8
7	BMW	Germany	4	3.0
8	Procter and Gamble	US	4	3.0
9	Fiat	Italy	2	2.3
10	General Motors	US	3	2.3
11	Hewlett-Packard	US	3	2.3

rate diversification.

Microsoft won plaudits for successfully riding the roller coaster of the information economy, while Coca-Cola was applauded for pursuing a long-term global strategy and a firm commitment to shareholder value.

More than 90 per cent of executives responding to the survey nominated one company which they most respected, regardless of its country of origin. However, the geographical pattern of support for individual companies varied considerably.

More than half the votes

for GE were from executives in Germany and Italy. ABB won more than half its votes from Finland and Britain and won only one vote from Germany.

More than half of Microsoft's votes were from Germany and Britain, while BA attracted more support from Italy than from the UK.

At least as striking as the strong showing of US companies in the table of contenders from any other non-European country, ABB, the only other company mentioned, by respondents, won a mere 3 per cent

of the votes, divided between Sony and Mitsubishi of Japan and Singapore Airlines.

Yet survey respondents also named intensifying competition, particularly from the Far East, as one of the biggest challenges facing European business in the future.

Another oddity is that Fiat of Italy achieved a relatively high ranking in this part of the survey, while losing its place among the top 50 European companies which command the greatest respect overall.

Shareholder value: by Tony Jackson

## Respected, but short on excellence

In terms of shareholder value, top US companies are ahead of Europe's leaders

The definition of excellence in companies will always be partly subjective. But there is one measure which is, within its narrow limits, purely objective: how far a company has created value for its owners, in the form of increased dividends and a rising share price.

This question was touched on in the survey, but in an indirect way. Respondents were asked which European company was best placed to provide maximum long-term value to shareholders. Put that way, the question is one of forward-looking opinion, rather than a blunt appeal to the record.

The difference is subtle, but important. Shareholders naturally prefer to emphasise past share price performance, since it leaves less room for excuses on the part of underperforming managers. And in Europe, it is often argued, shareholders tend to occupy a less important place in the scheme of things than in the US.

As a means of looking at this, Price Waterhouse has compiled figures for the total shareholder return (TSR) achieved by the top companies (using data from Datastream and Bloomberg). This measures the average percentage rise in value of the stock of each company over five years, assuming that dividends have been reinvested over the period.

This is broadly similar to a popular US measure, market value added (MVA). In the US, MVA is taken increasingly seriously. A recent issue of Chief Executive, for instance, nominated as its chief executive of the year Roberto Goizueta of The Coca-Cola Co. Much was made of the fact that Coca-Cola's market value exceeds the capital invested in it since its inception by \$61bn, the highest figure among the top 1,000 US companies.

Second comes General Electric, with an MVA of \$52bn. This brings us back to our European survey: for GE was the company most admired by respondents to the survey on a worldwide basis. So how do European companies fare against that criterion?

In a word, badly. The most respected company, ABB, achieved an average total shareholder return in the past five years of some 12.13 per cent (adjusting for the fact that it is quoted in both Sweden and Switzerland). In the past three years, the figure is 18 per cent for the Swiss, compared to a total return of 66 per cent for the Swedish market in the period and 54 per cent in Switzerland.

In part, of course, the TSR result is dictated by the behaviour of the local stock market. Thus, the worst performer among the 22 leading companies in the survey has been Danone of France, with an average TSR of 1 per cent over five years and minus 3 per cent a year over the past three. And, indeed, the French stock market has been very weak over the period: though the CAC 40 index produced an average total return of 4 per cent

in the past three years, Danone has underperformed even in local terms.

A still more dismal performer in relative terms has been Deutsche Bank, which has averaged a TSR of only 3 per cent in the past three years compared to a local market performance of 44 per cent. Siemens, too, has managed only 8 per cent over the period, and 6 per cent average over five years.

At the other end of the scale, Nokia of Finland has produced an impressive TSR of 82 per cent on average over the past five years. This is made up of wild swings in the period, ranging from a return of 331 per cent in the year to July 1993 to minus 43 per cent in the year to July 1996. Nevertheless, the performance is impressive overall: and it is telling that it only warrants 19th place in the survey.

Indeed, the underperformance in terms of shareholder value is so consistent as to suggest a pattern. Of the top 32 companies, only two - L'Air Liquide and Saint Gobain of France - outperformed their local market. The great majority, including the top seven on the list, underperformed by more than half.

This is underlined by the fact that the companies ranked by respondents as best at creating long-term value - Shell, ABB, Nestlé and Roche - have all performed indifferently in stock market terms over the past five years. This can be explained in either of two ways: that respondents do not regard five years as the long term, or that the value created for shareholders is not uppermost in their minds.

Perhaps both are true. The typical survey respondent was the chief executive of a large European corporation. Most of those executives would probably work on longer planning horizons than five years. Many, one suspects, would regard the shareholder's interest as only one component - sometimes a minor one - in a much larger whole.

This touches on a wider debate. It is a cliché to say that continental European companies place more emphasis on stakeholder relationships - suppliers, bankers, employees - than do their competitors in the US and UK. It is also a cliché to accuse the US-UK approach of resulting in a short-term attitude to business and investment.

But the debate is shifting ground. The recent ousting of Carlo de Benedetti as head of Olivetti, for instance, bears some of the hallmarks of a shareholders' revolt.

Equally, it is notable that the survey respondents named General Electric of the US as their favourite company worldwide. Jack Welch, GE's chairman, is certainly a long-term strategist. But he is also an explicit champion of shareholder value.

Indeed, he has said that rewarding his managers in stock - as GE increasingly does - is an important way of channelling their competitive instincts into working for the good of the corporation as a whole. European managers plainly admire Mr Welch's results. It might also pay them to emulate his methods.

## PROFILE Holderbank By William Hall

Switzerland's Holderbank, which has been voted the most respected company in the construction, housebuilding and building materials sector, is well known in the world cement industry as a professional competitor which has never deviated from its simple and successful long-term strategy of being an important participant in all the cement markets in which it competes.

However, visitors to Holderbank's unpretentious headquarters in a small village near Zurich could easily pass by the building without observing that it was the administrative centre for the world's biggest cement company. There are no cement plants in sight and there is no corporate logo advertising Holderbank's sale of more than 50m tonnes a year of cement and its employment of 44,000 people, the vast majority of whom work

outside Switzerland. The history of Holderbank started in a small village of the same name, about 30km west of Zurich, where the Aargauische Portlandementfabrik Holderbank-Wildegg was founded in 1912.

Two years later, Ernst Schmidheiny bought a stake in the company and began the Schmidheiny family's long association with cement. Today, the family of Thomas Schmidheiny, the chairman and managing director, still controls more than 50 per cent of the company which last year had annual sales of Sfr8.3bn (\$6.9bn) and earned Sfr463m.

Holderbank's emergence as an important multinational owes much to those early years. Even then the

Schmidheiny realised that the company's long-term growth could not be secured by depending solely on the domestic Swiss market. The family started investing in overseas cement operations first in neighbouring European countries and in the late 1920s had operations in Egypt and Lebanon.

Over the years, there have been setbacks. Some businesses have been nationalised and the company's fortunes were hit by the problems of the Third World debt crisis in the 1980s. More recently the Mexican economic crisis led to a 25 per cent fall in Mexican cement production and Apasco, Holderbank's Mexican affiliate, saw its earnings collapse from \$102m in 1994 to just

\$17m last year. These setbacks might have frightened off other companies worried by the stock market's reaction to their exposure. However, Holderbank has always regarded overseas expansion as one of its main strengths and its strong family shareholding has meant that it could afford to be relaxed about the stock market's short-term concerns.

When other companies, such as the UK's Blue Circle, were diversifying out of the cement business, Holderbank's diversification took the form of increasing its geographical spread. Today, Switzerland accounts for less than 10 per cent of the group's profits and it is the biggest cement producer in

the US and number two in large markets such as Mexico, Brazil, Canada and South Africa. It is very strict about what it regards as its core businesses - cement aggregates, concrete and concrete chemicals - and its diversification is based on geography rather than product. When one market is down another will be up.

Thomas Schmidheiny, who joined the company in 1967 and has been the driving force behind its recent development, says that the cement industry started as a small plant serving a couple of villages - and even today it is very much a regional business where dominant market share is the one of the keys to success.

Cement is a commodity product and there are only a limited number of ways that producers can differentiate their products. Quality and services, such as Holderbank's concrete chemicals business, matter. But at the end of the day Holderbank's profitability is very dependent on its pricing power.

Consequently, the company's aim is to have market shares of between 30 per cent and 40 per cent in certain well-defined markets. It has sold off plants where its market position is too weak.

Holderbank, in common with other established European producers, has had to contend with increasingly tough competition from eastern Europe. Its reaction has been to attack its cost base, particularly in the area of fuel, and to use its efforts in this area to advance its case as an environmentally sensitive company.

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## EUROPE'S MOST RESPECTED COMPANIES 3

## PROFILE

Percy Barnevik, chairman and chief executive of ABB • By Stefan Wiestner

## Engineering a worldwide advance

For Percy Barnevik, the chairman and chief executive of third time overall winner ABB, the Swedish engineering group, the biggest challenge is expanding his complex organisation into emerging markets.

What began seven years ago as a push into eastern Europe following the collapse of communism, has mushroomed into a worldwide advance, focused on the former Soviet Union and Asia as well as on eastern Europe. The lessons learned in the early 1990s from investing in factories in Poland and the Czech Republic are now being applied further east, including in Russia, India, China and south-east Asia.

Mr Barnevik says ABB's aim is the "massive transfer of knowledge from west to east through our product lines... The group is gravitating eastwards to eastern Europe and east Asia."

When the expansion into eastern Europe started the company transferred skills to factories in Poland and the Czech Republic from Switzerland, Sweden and Germany. Now it is using Polish and Czech engineers to train staff at newly-acquired businesses in the Ukraine and Russia. Nor does it neglect smaller countries - for example, Sweden, Denmark and Finland have been entrusted with supporting emerging businesses in Lithuania, Latvia and Estonia, in a Baltic co-operation pact.

The pattern is repeated in



Asia. ABB's factory automation plant in Bangalore, India, is being used to train engineers for Thailand and elsewhere in south-east Asia. Responsibility for developing a low voltage apparatus factory in Beijing - a key product in a key country - has been entrusted to managers in Singapore. Staff sent to China are mainly young overseas Chinese, mostly recruited in Singapore and Hong Kong.

Meanwhile, in South America, the large Brazilian operations are used as a base

for supplying trained staff to smaller countries and in Africa. South Africa is a base for developing ties with other states.

Mr Barnevik says that without decentralising responsibilities, such transfer of skills would be costly. "It would be truly expensive if everything had to come through head office. Sending Americans, Swedes, or Germans everywhere would be expensive and less effective since they do not know the culture or the language."

However, ABB would not

be able to achieve this degree of decentralisation if it did not have long experience in running a decentralised operation and a suitable management system.

Mr Barnevik has run the group since its foundation in 1988 by trying to push responsibilities out of head office to individual country and business division managers. When he created the company by merging Asea of Sweden and Switzerland's Brown Boveri he put a strong emphasis on cutting head office staff and decentralising, using methods

already used at Asea, which he had run since 1980. But to keep the group from fragmenting Mr Barnevik built a matrix organisation in which managers report to a country manager and to a business area manager.

In the rush to decentralise, the group was broken into more than 60 businesses, but it has since been reorganised into 38 because some of the units were too small and overlapped too much.

Geographical expansion has brought about a rapid

increase in country managers from 57 in 1990 to 84 today. There are also nine regional managers covering groups of countries where there is too little business as yet for country managers.

Mr Barnevik says that without the matrix it would have been difficult to expand so quickly. But he argues that the matrix alone does not explain the group's success in spreading to new countries. The solution is mobilising enough skilled people able to bring on staff in newly-emerging economies. Mr Barnevik says: "One of my big jobs is to strengthen the glue - to make managers feel they are part of a family." He cultivates "group-mindedness" and encourages it with praise and bonuses for those who support operations in emerging countries.

Mr Barnevik denies that he shoulders too much of this burden himself. "People say that. But with every year that passes there are more and more people who are group-minded."

That conviction stems from the fact that many of the group's most dynamic customers are located outside its traditional home in western Europe. These customers are now driving the group's growth. In the six months to the end of June, ABB reported a 22 per cent increase in net income to \$556m, despite a slowdown in western Europe. Mr Barnevik says that without the business in eastern Europe and Asia, the increase "could have been zero."

## Country rankings

Rank	Company	Sector
1	Austria VA Technology	Engineering
2	OMV	Oil, gas & mining
1	Belgium Solvay	Chemicals, rubber & plastics
2	Cofinut	Retail & distribution
3	Dehaene	Retail & distribution
4	UCB	Chemicals, rubber & plastics
1	Denmark Lego	Entertainment & leisure
2	Novo Nordisk	Pharmaceuticals & healthcare
3	Denfoss	Electronics
1	Finland Nokia	Electronics
2	UPM Kymmene	Paper, packaging/forestry
3	Kesko	Retail & distribution
1	Germany BMW	Automobiles/trucks & parts
2	Siemens	Electronics
3	Bayer	Chemicals, rubber & plastics
4	Bertelsmann	Media, printing & advertising
1	Italy Fiat	Automobiles/trucks & parts
2	Ferrero	Food processors
3	Luottola	Household
1	Portugal Sonae	Diversified holding co.
2	Cabot Garal de Depoite	Bank & financial institutions
3	Petrogal	Oil, gas & mining
4	Banco Comercial Portugal	Bank & financial institutions
1	Spain El Corte Ingles	Retail & distribution
2	Repsol	Oil, gas & mining
3	FCC	Construction
1	Switzerland ABB	Engineering
2	Nestle	Food processors
3	Roche	Pharmaceuticals & healthcare
1	Turkey Yoc	Diversified holding co.
2	Sabanci	Diversified holding co.
1	UK British Airways	Transport
2	Marico & Spencer	Retail & distribution
3	Pearsons	Media, printing & advertising

## PROFILE

ING, the banking and insurance group • By Geoffrey Lamb

## Dutch group casts a wide net

ING Group, which emerges as the highest-placed financial institution, is known in the City of London as the rescuer of Barings, and in dozens of developing countries as a winner of the finance house eager to be among the first to set up as a commercial bank.

Its appetite for emerging markets reflects its small home base. Among a population of fewer than 16m in the Netherlands, ING has a quarter of the market for life policies and a financial relationship of some sort with 75 per cent of all households.

The group is the product of a merger in 1991 between Nederlandse Middenstandsbank and the Nationale Nederlanden insurer. Since then it has also scooped up Postbank, the giro operation shed during the privatisation of KPN, the country's posts and telecommunications carrier.

China is currently its most important target market. Bank offices were added last year in Shanghai and Shenzhen, and the insurance side is seeking permission to convert its representative offices there into full sales branches.

In its interim results announced last month, although still only 4.4 per cent of the total, breached the F11bn barrier. That excludes a similar sized contribution from Australia, where the group owns Mercantile Mutual, an insurer on to which it is grafting banking products.

First half profits from Asia, at F120m before tax,

are dwarfed by the F11.96m harvested at home but come close to the F1.18m the group managed from the rest of Europe. Its surefootedness in the Pacific region is underlined by the experience of a decade-old life insurance presence in Japan, where premium income last year topped F1.1bn.

"On the insurance side, we started to build up a number of greenfield operations, and Japan was our first," says Mr Aad Jacobs, ING chairman.

"For five or six years it was very difficult to get a licence, but since then we have been very successful there... we have used the lessons we learnt there in Korea, Taiwan and a number of other countries like Italy, and in eastern Europe."

This need to cast its net widely reflects not only the relatively small Dutch market but also the absence of the "second home market" after which the group has banked. An attempted merger in 1992 with Banque Bruxelles Lambert of Belgium came to naught, and a large retail banking presence in western Europe looks unlikely unless an unexpected candidate presents itself.

This is in spite of its having a strong insurance presence in a number of countries, the importance of which would be enhanced by the addition, on German Allianz principles, of bank branches through which policies could be sold.

"We would like to have a good [banking] operation in



Aad Jacobs, ING chairman: China is a key target for the group

Germany or France or Belgium but the prices [of acquisition] are so high that it is difficult to make a profit," says Mr Jacobs.

This summer ING took majority control instead at Bank Slaski, one of Poland's largest commercial banks. Slaski has 1m clients and has provided - at the relatively cheap price of F135m for which ING doubled its stake to 54.1 per cent - a base from which life and other straightforward insurance policies, such as motor cover, can be marketed.

"If I look at the kind of business we get from bank offices, what kind of business Postbank is doing with the insurance company for the group, if I see how we work together as bankers or investors in a number of big deals and how we are combining different cultures

between bankers and insurance people, we can certainly say this was a success story," Mr Jacobs maintains.

ING's domestic banking operations, including Postbank, now bring to the group about 10 per cent of all new life policies written by the insurance division. Such indicators of the advantage a group gains by operating in both sectors are still "not at a level we want to achieve in the long run, but they are a very important factor in our total".

The group had total assets at the end of June of F148.9bn, swollen by the acquisition of Barings, the London merchant bank brought to its knees early last year by the unauthorised trading of Mr Nick Leeson. Barings failed to meet initial profit targets set by the new parent, which were

merely that it should make up for the interest ING would have earned had it left its 280m investment on deposit earning interest. But the group is happy with its purchase and confident of adequate returns this year.

The Singapore experience aside, Barings had developed a confidence in emerging market trading and asset management which provided a good match for ING's existing activities in those same economies. But in the six months to June the group as a whole earned more from Asia, Australia and Latin America than from North America, and acquiring a US investment bank has often been seen as a necessary goal.

As legal barriers separating banks and insurers break down in the US, such a mission in theory becomes easier, but such a plunge may not happen in the immediate period ahead, Mr Jacobs cautions. Barings is not yet doing as well as he thinks it could, and while financial resources could absorb a similar entity across the Atlantic, there would be a risk of over-extending management capability.

He goes on: "We are not actively looking at candidates, but on the other hand if somebody were there, an opportunity which is one in a thousand - it would be stupid not to look at it... having an investment bank in the US would be a tremendous step for the ING group."

## PROFILE

The Bertelsmann group • By Judy Dempsey

## Conflict of cultures for media giant

When Bertelsmann, Germany's largest media and entertainment group and the world's third biggest, announced earlier this year that it had clinched a deal with Rupert Murdoch's British Sky Broadcasting to launch a digital television channel, there were mixed reactions from the media world.

To some analysts, the alliance came as no surprise. Bertelsmann, joint third in the German country list of admired companies whose main strength lies in book and magazine publishing, had always wanted to join the world's biggest television groups, with perhaps an eye on eventually acquiring a stake in a Hollywood studio.

More circumspect analysts, however, concluded that the alliance - short-lived as it turned out - could not have lasted since whether it wanted to diversify in the television business. Significantly, it had not prepared the ground sufficiently to become one of the principal groups - ahead of the Munich-based Kirch group, its arch rival - in launching digital television in Germany.

Bertelsmann's attempts to enter Germany's nascent digital television market also exposed the contradictions within a group which has prided itself on continuing its philanthropic tradition, generously donating to foundations, and maintaining a



Mark Wörmann, chairman: He welcomes global alliances

List of high quality magazines and publishing houses.

Essentially, Bertelsmann has manoeuvred itself into a position of having to decide whether it wants to diversify considerable financial resources into expanding into multimedia and digital television, or to continue building up its impressive book and recording publishing divisions. Its conservative and cautious approach runs counter to the cut-throat world of multimedia and television. Reconciling the two cultures has not brought out the best in Bertelsmann.

Mr Mark Wörmann, Bertelsmann's chairman, highlighted the dilemma that traditional media and entertainment groups face in a recent speech - confidently adding that the group could integrate both tendencies. "A media world without traditional borders is emerging from the growing integration of previously discrete activities and technologies," he said.

"There is compelling reason for companies in differing industries to form global alliances as a means of mastering the market complexities inherent in the new media markets and the convergence of content, hardware and advanced forms of communications."

The recent experiences of the past year suggest, however, that the group is not prepared to meet this challenge. First, it failed to prepare the ground in consolidating the alliance with Mr Murdoch's BSkyB. "Bertelsmann was obsessed with beating the Kirch group to the digital television post. It simply did not have the expertise on the ground to cut through its own bureaucracy, speed up the decoding technology and consult its other allies," said an official from Canal Plus, the French commercial pay television channel which along with Bertelsmann and the Kirch

group holds a stake in Premiere, Germany's pay-television network.

Secondly, even though Bertelsmann has a reputation of being an open company, it failed to keep CLT, the Luxembourg-based commercial television group which merged recently with UFA, the television arm of Bertelsmann, and Canal Plus, informed of what kind of partnership and strategy it was keen to pursue in its bid to launch digital television in Germany and become an important force in Europe.

In the event, Bertelsmann has been reluctantly forced to join forces with the Kirch group - now an ally of Mr Murdoch's BSkyB - in forming a joint decoding system for digital television. To add insult to injury, Canal Plus, frustrated with Bertelsmann's tactics, earlier this month announced it would merge with NetHold, owned jointly by Richemont, the luxury goods and tobacco business, and MIH, the South African-owned pay television company. This will create the largest television group in the world and complete the carve up of the digital television map of Europe.

The embarrassment in losing allies as well as the financial cost of trying to launch digital television - estimated to exceed DM1bn - reveal much about a company which is trying to come to terms with the extraordinary pace of multimedia technology.

For decades, it has been able to build up its book publishing lists and its book clubs, the biggest in the world with 35m subscribers. Over the past few years it has expanded into the US market, buying the prestigious Doubleday Dell publishing group and the New York Times magazines, the RCA recording label and Ricordi, Italy's big music company.

But Bertelsmann is the first to admit that these acquisitions have taken time to integrate, prompting analysts to suggest it may have diversified too quickly into the multimedia and digital television sector before it had consolidated its other acquisitions.

Its interim results for the 1995/96 fiscal year confirm this. Operating results fell 16 per cent. Its sales, which totalled DM20.5bn during the 1994/95 fiscal year are expected to reach DM21.5bn this year. But much attention will be focused on Bertelsmann's net income which in the last fiscal year amounted to DM815m and above all its ability to map out a coherent multimedia strategy.

## Results analysis and methodology • By Geoff Dyer

## A consistent pattern has emerged

New questions were introduced this year to probe the views of senior executives

This is the third year that the Financial Times and Price Waterhouse have conducted a survey to find out which are Europe's Most Respected Companies and this time a number of innovations were incorporated to enhance the range and quality of the findings.

The basic approach of the survey remains the same, however, and the results can be compared with last year's conclusions. We sent questionnaires to 18 companies in a total of 18 countries, the same as last year, but this time we increased the number of organisations approached from 1,097 to 1,451. In particular, we were keen to expand the level of replies from smaller countries.

The starting point for selecting the companies was The FT 500, published every January, which lists Europe's largest quoted companies by market capitalisation.

After excluding companies that were not European-owned from this list, we expanded the sample, using a number of other databases, and included large private or state-owned companies.

To ensure that the sample bore some resemblance to the European economy, the number of companies selected from each country was based on that country's proportion of European GDP. A rough minimum of 50 companies per country was used, wherever possible.

The aim of the final sample, therefore, was to make sure that each country was fairly represented and that the companies included were sufficiently large.

We asked for responses from only one executive at

each company - usually the chief executive or president - so that the replies would reflect the views of a broad range of companies. The questionnaires - which were available in English, French, German, Spanish and Portuguese - were filled in anonymously, so that any comments made by participants cannot be traced back to the individuals.

The first part of the survey is similar to previous years - participants were asked to name the companies they most respected in Europe, in their own country and in their own sector.

Although the sample of respondents was much larger this time, the results from these questions show a good deal of continuity with our previous surveys - from the presence in the top three, of ABB, British Airways and Nestlé, all of which have done well previously, to several of the sector and country winners.

However, as a result of the expansion of the sample this year, we have been able to include results for countries such as Austria, Belgium, Denmark and Portugal, about which it had not been possible to draw firm conclusions in the past because of the lack of sufficient information.

It was in the second part of the survey that most of the changes were introduced. Questions were introduced to nominate respondents to best displayed a series of specific management characteristics were increased from nine to 21. For instance, executives were asked to nominate the companies which had the strongest corporate brand image, were best at maximising employee potential, made the most effective use of new technology or were best at satisfying their customers.

Other questions asked which were the best companies at dealing with environmental issues, at demonstrating high standards of ethical conduct in business, and which group had made the best judgement recent merger or acquisition, or had best managed the transition from public to private ownership.

This section produced some of the most surprising results in the survey, such as Shell's nomination as the company best at dealing with environmental issues.

This time we asked executives to consider all European companies in their responses to these questions, instead of asking them just to concentrate their answers on companies within their sectors, as we have done in the past.

We hope that by encouraging executives to give views on companies outside the narrow confines of their own industry we have produced a more interesting set of findings covering a broader

range of companies. An additional section of the questionnaire this year asked participants to comment on issues and personalities.

A further question asked what they thought was the most important issue facing European business and which company was best placed to respond to that challenge, and this produced some interesting regional variations.

The results were calculated on the simple basis of votes received for each question. However we noted the country of origin of each vote to get an idea of how broadly spread the support for each company was: so while ABB, the overall winner, received votes from companies in a total of twelve countries, Air Liquide, the French chemicals and plastics group which came 14th, garnered votes from peers in only one country.



## 4 EUROPE'S MOST RESPECTED COMPANIES

PROFILE Ferrero, the confectioners • By Andrew Hill

## Italian group's sweet smell of success

Ferrero is the company which makes the world's largest confectioners lick their lips. It is not so much the Italian company's products which invite admiration although its Nutella spread, Kinder and Ferrero Rocher chocolates, and Tic Tac mints are among the world's best-selling sweet things - but the Italian group's ability to go on growing, at a time when most of its competitors have had their share of hard times. It is a quality which has made it Italy's second most admired company in this year's list, behind Fiat.

Last year, the Ferrero holding company - registered in the Netherlands - increased worldwide consolidated turnover by 7.3 per cent to £17.23bn (\$4.35bn) in a difficult market. Not surprisingly, as one food analyst puts it: "People like Cadbury would really like to get their sticky hands on Ferrero."

The frustration for fellow confectioners is that whereas Ferrero's products are marketed with style and aggression, Ferrero the company is emphatically not open to offers. The group,

which celebrates its 50th anniversary this year, is as discreet as only a family-owned Italian company can be. It is entirely self-financing, has never made an acquisition, and does not publish holding company profits.

The Ferreros themselves rarely talk publicly about the company, which now claims to be one of the world's top five confectionery groups, up there with Mars, Suchard, Nestlé and Cadbury. Perhaps unsurprisingly, one of Ferrero's closest allies is that other soul of Italian discretion, Mediobanca, the powerful and secretive Milan-based merchant bank, of which the chocolate company is a core shareholder.

The group is headed by Michele Ferrero, son of Pietro, one of two brothers who launched the group in 1946 in Alba, in Piedmont, where the family owned a cake manufacturing business.

The technical key to post-war success was the invention of Pasta Gianduja - a mixture of cocoa, sugar, milk, nuts and coconut butter which cost a quarter of pure chocolate, and became



Tempting products, marketed with style

a mass-market alternative almost immediately. Within a year, Ferrero had transferred production to a larger factory and increased the number of employees from

five or six to more than 50. Soon it had expanded from the surrogate-chocolate market into manufacturing the real thing, at prices which challenged Italy's traditional

confectioners.

Ferrero claims the keys to success have always included strong attention to distribution and marketing - the company started almost immediately to cut out intermediaries and sell products direct to shopkeepers using its own fleet of vehicles - development of innovative new product lines, and the strong loyalty of the staff.

Workers have twice rescued the group's Alba plant from floods which submerged the production facilities. In February 1994, the factory was up and running again within 10 days. In autumn 1994, when the company was working towards the busy Christmas period, employees helped restore partial production in the much larger Alba factory within two weeks. Net profit of the Italian operating company halved to £6.5bn (\$4.35bn), but recovered last year to £10.05bn.

Michele Ferrero - who, with his mother, took over the full running of the group in the 1950s after the deaths of his father and uncle - began expansion into the rest of Europe as early as 1967, with the construction

of a factory in Germany. In the 1970s, Ferrero pushed into the Americas - south-east Asia and Australia, and, in the 1980s, started to build its presence in eastern Europe.

Ferrero now claims to produce the best-selling praline and liqueur chocolate in Europe (respectively Ferrero Rocher, launched only in 1981, and Mon Chéri), and the world's best-selling mint, Tic Tac. As a group, Ferrero employs 14,000 people worldwide, and has 14 production plants, with new factories under construction in Poland and in Argentina.

So where does Ferrero go from here? It would be out of character for the company to join the acquisition trail, so the most likely route is expansion into new markets. Of the group's £17.23bn turnover, £11.5bn is made in Italy, £1.457bn in the rest of Europe and only £1.817bn in the rest of the world.

As for the possibility of the family selling out to one of those hungry rivals, that looks even less likely now that Michele Ferrero is handing more power over to his sons, both only in their early 30s.

Competitive advantage • By John Wright

## Survival through differentiation

The pace of change is unrelenting. The world continues to get smaller through transportation and, more importantly, telecommunications. The OECD countries have a high standard of living but high wage rates. Meanwhile, protective tariff barriers continue to fall away, increasing competition from low wage economies.

The survey showed that 44 per cent of respondents saw competition, particularly from south-east Asia, as the leading issue. Competitive edge, whilst partly a matter of price, is also about giving the consumer what he wants. Consumer sovereignty is in the ascendancy and spreading.

How then should companies position themselves to maintain a competitive edge? Good ideas, whether cost-reduction, production or marketing innovation, provide a market lead for a time, but constant change is unavoidable.

As far as cost-reduction is concerned, business process re-engineering, adopting best practice, and outsourcing are increasingly commonplace. But in many countries there is an important contribution to the industry cost base which only governments can make available.

Energy, transport and telecommunications are large business costs. Yes, in some countries these are in the hands of monopolies. Governments may sometimes be tempted to put the interests of those monopoly companies ahead of the economic well-being of their countries as a whole, and particularly of the companies which are the wealth creators.

Full competition in these industries is not only desirable but essential. In the UK, for example, deregulation of the telecommunications sector is bringing more choice and reduced bills to both business and residential customers. And while British Telecom has shed significant numbers of staff, liberalisation has introduced more than 150 new operators in the UK, and created many thousands of new jobs.

Taking out costs, whether company or Government, is only part of the equation. What will determine competitive edge - and drive the income line - is innovation.

In short, differentiation through innovation - innovation to do things differently, to take a step ahead of competitors, to recognise

## Most admired attributes

Business	Country	Most admired attributes
ABB	Switzerland	Engineering
British Airways	UK	Transport
Nestlé	Switzerland	Food processors
BMW	Germany	Automobiles
Bertelsmann	Germany	Media, printing & advertising
British Petroleum	UK	Oil, gas & mining

Business	Country	Most admired attributes
ABB	Switzerland	Engineering
British Airways	UK	Transport
Nestlé	Switzerland	Food processors
BMW	Germany	Automobiles
Roche	Switzerland	Pharmaceuticals
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining

Business	Country	Most admired attributes
British Airways	UK	Transport
British Petroleum	UK	Oil, gas & mining
ABB	Switzerland	Engineering
Philips	Netherlands	Electronics
ABDA	UK	Retail & distribution
Ericsson	Sweden	Electronics
ING	Netherlands	Bank & financial institutions

Business	Country	Most admired attributes
BMW	Germany	Automobiles
Nestlé	Switzerland	Food processors
British Airways	UK	Transport
ABB	Switzerland	Engineering
Roche	Switzerland	Pharmaceuticals
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining

Business	Country	Most admired attributes
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining
ABB	Switzerland	Engineering
Nestlé	Switzerland	Food processors
Roche	Switzerland	Pharmaceuticals
Glass-Wellcome	UK	Pharmaceuticals
SAP	Germany	Computers, office equip.
VEBA	Germany	Oil, gas & mining

Business	Country	Most admired attributes
ABB	Switzerland	Engineering
British Airways	UK	Transport
Bertelsmann	Germany	Media, printing & advertising
Maria & Spencer	UK	Retail & distribution
Nestlé	Switzerland	Food processors
Unilever	Netherlands/UK	Food processors

Business	Country	Most admired attributes
British Airways	UK	Transport
Maria & Spencer	UK	Retail & distribution
BMW	Germany	Automobiles
Virgin	UK	Transport
Debitel	Germany	Automobiles
Rauten	UK	Media, printing & advertising
ABB	Switzerland	Engineering

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British Airways	UK	Transport
Maria & Spencer	UK	Retail & distribution
ABB	Switzerland	Engineering
Nestlé	Switzerland	Food processors
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining
BMW	Germany	Automobiles
Siemens	Germany	Electronics

Business	Country	Most admired attributes
British Airways	UK	Transport
BT	UK	Telecoms
Powertel	UK	Telecoms & water
KPN	Netherlands	Telecoms
Telecel	Spain	Telecoms
SAA	UK	Oil, gas & mining

Business	Country	Most admired attributes
Roche	Switzerland	Pharmaceuticals
Glass-Wellcome	UK	Pharmaceuticals
BMW	Germany	Automobiles
Grainol	UK	Entertainment & leisure
Rentokil	UK	Overseas holding companies
ABN Amro	Netherlands	Bank & financial institutions
Foris	Netherlands	Insurance
ING	Netherlands	Bank & financial institutions

Business	Country	Most admired attributes
Virgin	UK	Transport
ABB	Switzerland	Engineering
Bentley	Italy	Household textiles & clothing
British Airways	UK	Transport
Nokia	Finland	Electronics
SAP	Germany	Computers, office equip.

Business	Country	Most admired attributes
Nokia	Finland	Electronics
Roche	Switzerland	Pharmaceuticals
Ericsson	Sweden	Electronics
ABB	Switzerland	Engineering
BMW	Germany	Automobiles
Siemens	Germany	Electronics
Philips	Netherlands	Electronics
SAP	Germany	Computers, office equip.

Business	Country	Most admired attributes
Maria & Spencer	UK	Retail & distribution
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining
ABB	Switzerland	Engineering
Nestlé	Switzerland	Food processors
Body Shop	UK	Retail & distribution
British Airways	UK	Transport
Boyer	Germany	Offshore, rubber & plastics
Boehr	Germany	Automobiles
Volvo	Sweden	Automobiles
Unilever	UK/Netherlands	Food processors

Business	Country	Most admired attributes
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining
Nestlé	Switzerland	Food processors
British Petroleum	UK	Oil, gas & mining
ABB	Switzerland	Engineering
Roche	Switzerland	Pharmaceuticals & healthcare
Glaxo	UK	Pharmaceuticals & healthcare

Business	Country	Most admired attributes
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British Airways	UK	Transport
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Maria & Spencer	UK	Retail & distribution

PROFILE British Airways • By Michael Skapinker

## A sophisticated offering

British Airways' position in second place behind ABB in the list of Europe's most respected companies reflects its transformation over the past decade from much-despised state carrier into one of the world's most highly-regarded airlines.

Its pre-tax profits last year of £586m were the highest of any airline. Its new first class seats, which recline to become beds, and innovations such as its business class larger make its offering one of the most sophisticated in the business.

Yet British Airways confronts an aviation world which is changing rapidly and in which it is scrambling to ensure it remains an international aviation leader.

In North America and Europe, airlines are forming global alliances, creating international networks which allow them to sell tickets for a far wider range of routes than was previously possible.

The new alliances have been prompted by the deregulation of the aviation market in the US, and now in Europe, and the entry of low-cost, no-frills carriers. Fares are expected to fall in the long-term.

Given the high cost of purchasing and maintaining aircraft to acceptable safety standards, airlines' profit margins are being squeezed. Only by attracting a higher volume of passengers can carriers ensure they have sufficient resources to invest in equipment, training and customer service.

In any other industry, this would lead to consolidation in the form of mergers and takeovers. The airline business, however, is different. Although it is a global, fast-moving business, aviation is hampered by the sort of government regulations which affect no other industry.

Under European Union rules airlines can only be controlled by EU nationals, although foreigners can own up to 49 per cent of their shares. The rules in the US are even more restrictive, limiting foreign ownership of airlines to 25 of the voting stock.

Until recently no international flight could take place unless the governments at both ends had agreed to it. Bilateral aviation treaties laid down the number of flights that could be made between cities in different countries and, occasionally, even the size of the aircraft that could be used.

In recent years, the US has begun to sweep away many of these restrictions, reaching "open skies" agreements with several European countries, including, earlier this year, Germany. These agreements allow airlines from one country to fly to any point in the other, without the need for government approval.

Not all restrictions have been lifted by these agreements: only US carriers can make domestic flights in the US. This gives them a substantial advantage in flying passengers to airports in large cities, from where they

can be flown across the Atlantic in US carriers.

The most important outcome of these open skies agreements from BA's point of view is the formation of alliances by the airline's competitors. The oldest of these is that between KLM of the Netherlands and Northwest Airlines of the US. Another US carrier, Delta Air Lines, has an alliance with Swissair, Austrian Airlines and Sabena of Belgium. Lufthansa of Germany, British Airways' principal competitor in Europe, has teamed up with United Airlines of the US.

All these alliances have received anti-trust immunity from the US authorities. This means, in the words of one US airline executive, that "they can do things which would otherwise land them in jail".

They can, for example, co-ordinate their schedules closely, market their services jointly and share many of their facilities - acting as if they were a single airline. They can also "code-share", that is put their two letter flight codes on each other's flights and sell tickets on them as if they were their own. This means that Lufthansa, for example, could sell a ticket from Frankfurt to a small US city that it does not serve. On the US leg of the journey, the passenger will travel on a United flight.

British Airways believes that alliances of this sort pose a threat to its position as Europe's leading airline. Mr Robert Ayling, its chief executive, says that, increasingly, competition will be between aviation networks rather than between airlines. Earlier this year, British Airways announced plans for an alliance with American Airlines. The two plan to co-ordinate their flights and share revenues from their transatlantic flights.

The US government has said that the alliance can only be put into effect, and be granted anti-trust immunity, when the US and the UK have concluded an open skies agreement. This has so far proved difficult, with the US demanding greater access for its carriers to London's Heathrow airport.

The alliance has been strongly opposed by Virgin Atlantic of the UK and most large US carriers on the grounds that it will have too big a share of the transatlantic air market. However, the two carriers say they have substantial support from US air travellers.

A survey carried out for American among international business travellers found 83 per cent thought the BA-American alliance was a good idea and 69 per cent said it would help to make international travel easier.

Among other results in the survey, Mr Richard Branson's Virgin group scores well for ensuring customer satisfaction and maximising employee potential.

It does best, however, in the rankings for innovation, winning first place ahead of ABB, Benetton and British Airways.

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PROFILE El Corte Inglés, Spanish retail group • By Tom Burns

## Popular landmarks

Big towns in Spain have four landmarks: the cathedral, the city hall, the bullring - and the Corte Inglés store. Spaniards spend a lot more of their time in the fourth landmark than in the other three put together - perhaps explaining why it is Spain's most admired company.

With a turnover in its last financial year of Pta1,016bn (\$2bn) and net profits of Pta335bn, El Corte Inglés is by far the largest privately-owned business in Spain, and with the biggest marketing budget in the country, dominates domestic advertising and ensures total awareness of its presence.

For many Spaniards, the chain's large department stores constitute one of the main reference points in their lives. The Corte Inglés is the first choice for about-to-be-weds when they draw up their wedding gift list. Likely as not the chain's travel department will organise their honeymoon and its interior decorating unit will advise on the fittings of their new home.

An important part of the Corte Inglés business formula is to provide virtually every consumer product. The same large store contains high fashion and basic household goods, high-tech equipment and groceries. It is a large emporium strategy

that sells right across the social scale. The tested formula of selling everything to everybody, with a fast delivery service and a money-back guarantee, is peculiar to Spain and it has built tremendous customer loyalty.

There is probably better value elsewhere and better quality as well, but the Corte Inglés combination of quality and value is firmly imprinted on the minds of domestic consumers. The strength of this perception, together with the extraordinary range of customer services and the availability of goods, is one explanation for the store chain's success.

Another is its extraordinary promotional energy. Every year is punctuated by a succession of special theme weeks in which the Corte Inglés stores promote the products of a given country or sector, or, as in the case of its Spring and Autumn fashion promotions, the change of a season.

Sales at the Corte Inglés are media events and so are its Christmas decorations. Children are drawn to Corte Inglés stores at Christmas like moths to a light bulb because several stores around the country set up mini amusement parks in adjacent piazzas.

No Spaniard is ever very far from the Corte Inglés.

Last year the company bought a rival domestic chain, Galerías Preciados, adding a further 28 large stores to the 32 it already operated. It is peculiar to Spain and it has built tremendous customer loyalty.

The acquisition was in itself testimony to the Corte Inglés financial muscle - a strength that is all the more remarkable because the 60-year old business has always financed development out of its own reserves.

The Corte Inglés paid Pta30bn for Galerías Preciados in June last year and spent a further Pta50bn revamping its rival's stores in order to relaunch them under its own logo in time for the Christmas buying spree six months later. Ownership of Galerías had changed hands six times since the late 1970s and, with its management drift, it had run up accumulated losses of Pta30bn since 1989.

With Galerías under its belt the Corte Inglés has gained more than an increased market share. The takeover has now allowed it to experiment with specialised stores in big cities such as Madrid, Barcelona and Valencia where both chains formerly competed, often with big stores on the same street.

Although the Corte Inglés

will maintain its giant emporium formula in most of its large stores it intends to move into market segmentation, as developed by US retailers such as Toys R Us and known in the retail industry as "category killers".

The Corte Inglés is no stranger to specialisation and it is a humble follower of retail trends. The company has built up a unit called Hipercor with 12 large out-of-town sites spread around the country to compete with the main hypermarket groups.

The final factor behind the success of the Corte Inglés is tight management and a pronounced corporate culture. The company is owned by a foundation that was set by its creator, Mr Ramón Areces, who returned in the 1980s with over savings from a spell in Cuba as a youth to open a small drapery shop in Madrid.

Since the death of the publicity-shy Mr Areces in 1989, the company is run by his no-nonsense nephew, Mr Leonardo Álvarez.

The Corte Inglés prides itself on the continual training programmes, fringe benefits and incentive schemes that it provides for its more than 60,000 staff. Most of the company's executives have worked their way up from the sales floor.

Continued from page 1

Benetton of Italy, respected for innovation, Spain's Repsol, whose privatisation is judged a success, and El Corte Inglés, a Spanish retailer admired for balancing the interests of shareholders, employees and customers.

Some of the detailed findings confirm national business stereotypes. Germany is strongly represented in engineering and chemicals, while the most highly ranked European companies in aviation, retailing and information services are all British. A number of UK companies

including BA, BP, and Marks & Spencer, perform well on criteria normally associated with the kind of long-termism for which German companies have traditionally been renowned.

That suggests that negative perceptions of Anglo-Saxon capitalism as irredeemably "short-termist" are waning - a point reinforced by the high regard in which many European managers now appear to hold US companies.

Furthermore, the successful "stakeholder" company is no longer viewed predominantly as a German phenomenon. Indeed, the list of companies

judged to balance best the interests of shareholders, employees and customers is headed by BA and Marks & Spencer.

Through companies such as Nestlé, BMW and Siemens also score highly on this measure. Air Liquide and L'Oréal of France, Astra of Sweden, Body Shop, BP, Rentokil, Reuters and Tesco all obtain honourable mentions.

By definition, most of the survey's findings are based on perceptions of past performance. But what of the future? Asked what they considered the biggest challenges facing European busi-

ness, almost half the respondents named competition, particularly from the Far East, and pressure on costs.

Roughly a fifth singled out regional issues, such as European monetary union and the growth of protectionism in Europe, while almost as many picked on the globalisation of markets.

No one company is perceived as best-placed to tackle all these challenges. However, BA, Shell and Nestlé are all rated highly for their ability to deal with cost pressures, while ABB is considered the best bet to handle the implications of globalising markets.





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## COMPANIES AND FINANCE: EUROPE

## Eni buoyed by reduction in financial charges

By Andrew Hill in Milan

Eni, the Italian oil, gas and chemicals group, yesterday reported a net profit of L2,378bn (\$1.55bn) for the six months to June 30, an increase of 5 per cent on the first half of 1995, allowing for accounting changes.

In the first half last year, Eni reported net profits of L2,615bn. However, it has since adopted a new US accounting standard which reduced this year's figure by

L382bn. Eni said yesterday its interim results had benefited from a 51 per cent year-on-year reduction in financial charges. In the first six months of 1996, net financial debt came down from L17,795bn to L15,078bn.

Turnover in the first half fell 4 per cent from L30,801bn to L29,444bn, and operating profit, before applying the new accounting standard, slipped from L6,253bn to L5,970bn.

Eni was held back by the cyclical

downturn in the petrochemicals sector, which contributed L303bn of operating profit, compared with L1,332bn in the first half of 1995.

The impact of falling prices and demand was exacerbated by the appreciation of the lira, Eni said.

Exploration and production generated operating profit of L2,688bn, against L2,611bn in the equivalent period, while natural gas activities lifted operating profit to L2,436bn from L2,064bn. Refining and marketing increased operating profit

by 41 per cent to L405bn from L288bn in the first half of last year, mainly because of improved margins in marketing.

The immediate reaction of some analysts yesterday was disappointment that the net profit was not higher, and that operating profits from exploration and production were lower than expected. The company pointed out that for technical reasons it had sold 1.1bn cubic metres less natural gas in Italy.

The Italian treasury is expected to outline terms for the sale of further shares in Eni within the next few days.

A first tranche of 15 per cent was sold in a public offer last November, in the biggest Italian privatisation issue ever, and a further tranche of about the same size should be sold next month. Mr Mario Draghi, director-general of the treasury, said last week the new issue might include incentives for small shareholders.

## Deutsche Telekom still to convince on debt

## Deutsche Telekom first-half results

	1996 first half DM	1995 first half DM	% change
Sales	30,639	32,580	-5.9
Operating profits	2,710	5,430	-50
Extraordinary losses	1,940	285	546
Net profits	204	3,510	-94.2
Profit less applicable to minority shareholders	75	1	n/a
Group net profit	129	3,511	-96.3

Source: Deutsche Telekom interim report



Ron Sommer (right) yesterday, with company spokesman Jürgen Kindervater, expects debt at DM60bn by 2000

The best bit of news for investors thinking about buying Deutsche Telekom shares was not trumpeted very loudly when the German telecoms group released its first set of six-month results yesterday.

During a presentation at its plush headquarters in Bonn, the group declined to say how quickly it would be able to reduce its net debts of DM98bn (\$66.2m) - a debt mountain that cost DM3.7bn to service in the first six months alone, and is so large that it could yet eclipse Europe's largest initial public offering of shares.

Privately, however, Mr Ron Sommer, chief executive, has said that he expects debt to fall to about DM60bn by 2000. Cash flow in the first half was DM12.5bn.

That is still significant, but if Deutsche Telekom can significantly reduce its debts by 2000, it will have freed funds which are likely to be badly needed to fend off competitors in Europe's largest telecoms market.

To date, only segments of the German market such as

mobile communications have been opened to competition but, in recent years, that alone has cost Deutsche Telekom up to 2 per cent of its market share annually.

Mr Sommer said yesterday. Full liberalisation, moreover, is not far off and will allow an unlimited number of operators into the German market after January 1 1998.

Few analysts expect those newcomers to make big inroads immediately, even though several of them, such as AT&T of the US and British Telecommunications, are hardly newcomers to telecoms.

By 2000, however, they will have got the hang of the telecoms game in Germany and could - if an aggressive regulatory regime is in place - be making significant inroads into Deutsche Telekom's 42m client base.

How the group will perform in the face of that competition - and what sort of dividends shareholders could expect as a result - remains a guessing game.

For one, Deutsche Telekom's personnel costs - the

highest of any telecoms operators in Europe - are falling and are set to drop further as another 37,000 jobs are shed by 2000.

Like the debt, however, those costs may not be falling fast enough. In the first six months, fewer of the more expensive civil servants left the company than cheaper workers.

While Deutsche Telekom will not create any new civil servants, analysts say that the group still runs the risk of having a workforce which is considerably more expensive than those of its competitors.

Just how much more expensive that workforce could be was underlined by Mr Joachim Kröske, finance director, who pointed out yesterday that the civil servants - who still make up 60 per cent of Deutsche Telekom's workforce - are 10 per cent more expensive than other executives when it comes to pension plans.

The good news, meanwhile, suggests that the German telecoms market is taking well to a number of

new services. Subscriptions for online services and ISDN (the broad band telecoms network needed for interactive services) are up sharply and look set to continue their upward trend: online subscriptions alone have doubled from 14m to 28m during the last year.

It is these new businesses which Mr Sommer, the one-time Sony executive, has targeted in order to expand his sales in the face of the growing competition.

Given that he already has the world's biggest ISDN network and 16m clients hooked up to the world's biggest cable television network, he is clearly not starting with an empty hand.

But while Mr Sommer focuses on potential new services, analysts and investors are still focusing on the old debt mountain.

Convincing them that this debt is manageable looks to be his most difficult task.

Michael Lindemann

## Michelin solid at operating level

By David Owen in Paris

Michelin, the French tyre maker, yesterday reported a decline of 11 per cent in first-half net profits, from FF1.51bn to FF1.36bn (\$262.5m), after making a FF709m exceptional provision for its Spanish operations.

Operating profits, by contrast, were ahead more than 30 per cent, propelled by lower production costs and a 2 per cent improvement in average selling prices. Turnover rose 5.4 per cent, from FF33.11bn to FF34.91bn.

This, together with the group's upbeat outlook for the balance of the year, is what the market appeared principally to focus on, and the shares rose strongly to

end the day at FF65.20 - a gain of FF6.10, or 2 per cent.

"Michelin is showing the benefits of being a really international company," said Mr Patrice Solaro, an analyst with Cheuvreux de Virieu, the French stockbroker. Cheuvreux yesterday added the Clermont Ferrand-based company to its top 10 list of stocks.

Operating profits were up from FF2.76bn to FF3.62bn. An exceptional charge of FF738m was taken, relating mainly to the restructuring at Neumáticos Michelin, the group's Spanish subsidiary.

The company said the shake-up would mean job cuts at the unit of 1,000, to between 8,000 and 9,000. The programme would run for three or four years, starting in 1997.

Though the charge surprised analysts - and prompted some to revise down their full-year profit forecasts - it did not affect the generally favourable response to the results.

"What is very interesting is that the company expects to get the cost of the provision back within two years," said Cheuvreux's Mr Solaro.

"If they had adopted the same measures in any other European country, they would not have had to pass a provision."

In the first half of 1995, the group made an exceptional gain of FF221m from the sale of buildings and property in Singapore.

Commenting on the second-half outlook, Michelin said global activity

in its markets had held up well in the summer and should reach "a satisfactory level" over the full year.

It said reduced costs would continue to play "a favourable role". The company was on track to "confirm the progress it had made since 1994".

Mr Eric Bourdais de Charbonnière, finance director, said: "We have never sold as many tyres at Michelin as in the first half of 1996."

The company said net debt had risen from FF21.6bn on June 30 1995 to FF23.2bn a year later.

Its net debt to equity ratio was 121 per cent, or 197 per cent if FF4.9bn of subordinated debt was considered as debt rather than equity.

## PROFILE

## Michelin

Market value: \$5.83bn. Main listing: Paris

Historic P/E 11.9

Gross yield 1.7%

Earnings per share FF28.5

Current share price FF297.5

Share price relative to the CSE 120 Index

Share price relative to the CSE 120 Index

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## EUROPEAN NEWS DIGEST

## SBC set to unveil domestic revamp

Swiss Bank Corporation, which has been expanding its international business rapidly, is expected to announce today a significant restructuring of its domestic Swiss business. The bank is the smallest of the big three Swiss banks but has the largest branch network and its operating expenses are higher than those of Union Bank of Switzerland, the market leader.

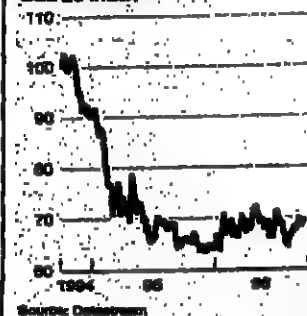
Mr Marc Ospel, chief executive, is expected to outline the changes in Basle this morning. The bank refused to comment on speculation that the changes would also involve a reorganisation of asset management and private banking. However, the presence at today's meeting of Mr Franz Menotti, head of the group's domestic business, led analysts to believe there would be a heavy domestic content in the changes. Ms Susanne Borer, of Bank Vontobel, said that SBC, as the smallest of the big three, had to get critical mass or restructure its domestic business.

William Hall, Zurich

## Sales fall hits Union Minière

## Union Minière

Share price relative to the BEL 20 Index



Source: Deutscher

Union Minière, the Belgian conglomerate, said first-half net profit fell from BF1.11m to BF1.08m (\$7m) as sales dropped from BF171.5bn to BF164.7bn. Profit before exceptional items and tax fell from BF1.1bn a year ago to BF1.03bn. The group said second-half profit before exceptional items and tax should be higher than in the first half, as long as metals prices did not fall significantly. Union Minière said operating profits fell from BF1.493bn to BF1.33m while financial costs shrank from BF4.88m to BF1.17m. The fall in profit before exceptional items and tax reflected the downturn in the transformation, diamond and construction sectors, offset by a rise in recycling and refining activity profits and much lower financial costs.

AFX News, Brussels

## Sonae ahead and upbeat

Sonae Investimentos, the holding company for Portugal's biggest retail and industrial conglomerate, forecast an 84 per cent increase in net profits for 1996, after minorities and excluding extraordinary income, from E4.5bn in 1995 to E8.3bn (\$8.8m). It said earnings per share, discounting extraordinary profits, would rise from E1.73 in 1995 to E2.06. But analysts said earnings per share on underlying profits could jump to E2.88 because income from some commercial real estate sales this year should be considered as extraordinary profit.

On the basis of a fall in extraordinary income from E6.3bn in 1995 to a forecast E6.6bn this year, Sonae Investimentos projected an increase in full-year net consolidated profit from E12.9bn in 1995 to E13.9bn.

The shares closed at E4.44 yesterday, down from E4.515. The group posted a 156 per cent increase in first-half net consolidated profits, after minorities and excluding extraordinary earnings, from E1.3bn to E3.1bn. Sales rose 28 per cent from E159bn to E205bn and Sonae forecast a similar increase to E260bn for the full year. Under a planned demerger involving the listing of a separate company for Sonae's industrial operations in 1997, the group said shareholders would be offered one share in the new enterprise for every two shares held in Sonae Investimentos.

Peter Wise, Lisbon

## Ramon Masip of Nestlé dies

Mr Ramon Masip, chief operating officer for food at Nestlé, the Swiss food conglomerate, died yesterday. He was 55. Nestlé said Mr Masip had planned to retire from the post next year for health reasons and had been proposed for election to the Nestlé board.

AFX News, Vevey

## Elegant solutions to complex situations

1996 Bankers Trust

**ACOR S.A.**  
has made a share for share offer to the minority shareholders of IBL for FF 2,550,000.00  
The undersigned provided valuation and advisory services to ACOR S.A. in this transaction.  
**Bankers Trust Company**

**Atlas Capital Limited**  
FF 3,800,000,000  
Guaranteed Floating Rate Notes due 1998  
The undersigned arranged the recapitalization and refinancing of Atlas Capital Limited through this transaction and acted as joint lead manager and bookrunner.  
**Bankers Trust (France) S.A.**

**FF 3,200,000,000**  
COMPAGNIE UAP has sold a portfolio of performing and non-performing real estate loans of its subsidiaries Barque Worms, Sofim and Sofapi, to WHBWL  
A consortium comprising of Whitchell VII Real Estate Limited Partnership, Staffbury International Holdings S.A. and Viner Management Limited.  
The undersigned initiated this transaction and acted as exclusive financial advisor to Compagnie UAP.  
**Bankers Trust Company**

**CRÉDISUEZ**  
FF 745,000,000  
Créditsuez, the real estate holding company of Groupe Suez, has sold a portfolio of real estate and performing and non-performing real estate loans to W.S.V. France S.A.  
A consortium comprising of Whitchell VII Real Estate Limited Partnership, Staffbury International Holdings S.A. and Viner Management Limited.  
The undersigned initiated and structured this transaction and acted as exclusive financial advisor to Créditsuez.  
**Bankers Trust Company**

**EXIDE europe**  
FF 2,569,000,000  
Senior Credit Facilities  
The undersigned acted as lead arranger in this transaction.  
**Bankers Trust International PLC**

**Lyonnaise Asia Water Limited**  
FF 239,700,000  
Private Placement  
The undersigned structured, arranged and acted as agent and financial advisor to Lyonnaise Asia Water Limited with regards to this second tranche of this equity placement.  
**Bankers Trust Company**

**PECHINEY**  
has sold its hydro electric and ferrous alloy metal business Hydronitro Española SA to Ferroatlantica SL  
The undersigned negotiated, structured and acted as exclusive financial advisor to Pechiney.  
**Bankers Trust Company**

**RHODIA**  
Rhodia S.A.  
a wholly owned subsidiary of Rhône-Poulenc S.A. has sold its shareholding in subsidiary Companhia Alcoolquímica Nacional to Union Carbide Corporation  
The undersigned acted as financial advisor to Rhodia S.A.  
**Bankers Trust Company**

Bankers Trust has established an impressive track record of providing elegant solutions to complex situations.

For further information, please contact:



## Pathé warns of second-half decline

By Andrew Jack  
in Paris

The chairman of Pathé, the French media group formed out of the demerger of the Chargeurs conglomerate earlier this year, warned yesterday that second-half profits would be well below those for the first six months.

Mr Jérôme Seydoux said that delays in a number of projects, including CanalSatellite and films it had backed, would drag revenues below forecast levels.

His comments follow publication last week of Pathé's first results as a

separate company, showing net income of FF64m (\$10.5m), compared with a pro-forma profit of FF128m for the first six months of 1996.

Mr Seydoux said the delayed launch of CanalSatellite, the satellite broadcasting arm of Canal Plus in which Pathé owns 20 per cent, meant costs from an advertising campaign and delays in revenue from subscribers.

He said Pathé's stake in the parent Canal Plus, which works out at just below 3 per cent, was a "trading" and not a "strategic" holding, which he would enlarge

or reduce depending on the price. He said Canal Plus's recent merger with the pay-TV operator NetHold was "a good operation", even if it needed heavy initial investment.

Pathé had no plans to launch new films during the second half of this year, so revenues would be lower from this division. Mr Seydoux said it was ready to open two new multiplex cinemas in France - in Grenoble and Marseille - next year, and three in the Netherlands by the end of 1996.

He said Libération, the left-wing daily newspaper in which Pathé

has acquired majority control, would be consolidated in the second half. He predicted a modest loss for 1996, which is already recorded on the balance sheet at FF61m, on turnover of about FF400m.

He said he was confident the heavy discount at which Pathé's shares trade to their net asset value would diminish over time.

Additional assets may be sold to cut debt levels, which now stand at about FF600m, Mr Seydoux said. He promised that Pathé would pay a dividend for the year, although this did not indicate a policy of paying high dividends each year.

## Telefónica chases Romanian GSM deal

By David White in Madrid

Spain's Telefónica group is preparing to take legal action against the Romanian government if it fails to obtain permission to operate a new digital mobile telephone service.

Mr Marcela Fortea, managing director of Telefónica Internacional (Tisa), the group's overseas subsidiary, was due to fly to Bucharest yesterday to seek a settlement in the dispute.

The Spanish operator claims it received guarantees four years ago that it would be allowed to set up a digital service using the Global System for Mobile Communications (GSM) standard.

However, the Romanian authorities have called a tender for the issuing of two GSM licences this month.

Set of Italy has formed a consortium with Bouygues of France and Balli Group of the UK, backed by Goldman Sachs, the US investment bank, while Motorola of the US has linked with TeleDanmark, Telcel of Finland and two private-sector Romanian companies.

Telefónica is understood to have offered to pay an entry fee but is not taking part in the tender, arguing that because of its previous arrangement it should not have to compete for a licence.

Mr Portela's mission followed the abrupt departure on Monday of Mr Germán Ancochea as chairman of Tisa and managing director of the Telefónica group.

The move, the timing of which was unexpected, was thought to reflect a personality clash between Mr Ancochea, who had been in post since 1989, and Mr Juan Villalonga, the new chairman of the 81 per cent state-owned group, appointed by the centrist government.

## EUROPEAN NEWS DIGEST

### CFF investors take action against Cob

Shareholders in Crédit Foncier de France, the specialist property bank, yesterday launched legal action against the Cob, the country's stock market watchdog, in the latest attempt to block the takeover bid launched by the state earlier this month. Ms Colette Neuville, head of Adam, the association for the defence of minority shareholders, said 680 Crédit Foncier investors had signed a complaint that the Cob should not have approved the takeover document because the state had not formally stated its responsibilities.

The state launched a FF2.6bn (\$508m) bid for Crédit Foncier at FF70 a share, a price which was supported by its advisers. However, the price was at the bottom of a range given in a second valuation by Dérooy, an equity research firm, which suggested the shares were worth up to FF95 each.

Yesterday's news was a positive development for shareholders objecting to the takeover. It comes after the Paris commercial court decided earlier this month to rule out investors' demands for a separate independent valuation. Separately, the court will hold hearings on September 24 to judge whether shareholders are justified in their claim that the vote at Crédit Foncier's general meeting at the end of June to approve its 1996 accounts was invalid.

Andrew Jack, Paris

### Disposal hits Club Med sales

Club Méditerranée, the French leisure and resort group specialising in exotic holiday destinations, reported sales for the nine months to July 31 of FF5.84bn (\$1.1bn), down 7.7 per cent from FF6.32bn for the same period last year. It blamed the fall mainly on the sale in December of its 48.3 per cent stake in Maeva, the holiday homes company, to fellow French leisure group Havas. Maeva generated sales of FF311m last year. After accounting for changes in group structure and exchange fluctuations, sales for the period at Club Méditerranée were down 2.1 per cent.

AFX News, Paris

### Cypriot bank ahead 10%

The Popular Bank, Cyprus' second largest, announced a 13 per cent rise in first-half operating profits and an interim dividend of 8 per cent. Net profits were up 10 per cent to C\$9.7m (\$20.7m). Mr Kikis Lazarides, chairman, said 14 per cent of the bank's profits came from operations in Greece and the UK.

Andreas Hadjipapas, Nicosia

### Snia Fibre reduces deficit

Snia Fibre, the fibres division of Fiat of Italy, incurred first-half pre-tax losses of L3.1bn (\$2m), compared with a deficit of L5.9bn last year. First-half operating profits rose 2.7 per cent to L18.1bn. Sales fell 3.4 per cent to L547.5m. Parent pre-tax losses were L2.5bn, against L4.8bn.

Caffaro, another Fiat subsidiary, posted first-half pre-tax profits up from L37.8bn to L38.1bn. Operating profits were up 18.2 per cent to L43.6m. Sales rose 18 per cent to L375.5m. Parent pre-tax profit rose from L4.7bn to L24.1bn on sales of L36.4bn compared with L112.5bn.

AFX News, Milan

## Estonian bank aims to be Baltic's Hong Kong

The gleaming modern tower that Hansapank put up in Tallinn, the Estonian capital (right), marks the humble roots of one of central Europe's premier banks.

Nine young Estonians started Hansa in 1992, recalls Mr Hannes Tamjärv, its chairman, with a pooled 30m roubles - about \$150,000. Besides capital, he says, the bank also lacked "old attitudes and old loan books".

But Hansa chose the right moment to come on the scene: when state-owned dinosaurs were suffering. Growth has been impressive. Net income has risen five-fold in the past three years to EKR76.7m (\$6.5m) in the first half of 1996; and it controls a quarter of the market.

Hansa's ambitions go beyond Estonia. Its strategy is to become the first pan-Baltic bank, serving Latvia and Lithuania too, and providing an island of security next to the large and volatile Russian market - as Hong Kong does for China.

"The coming months will be an important test for Hansa, which has never seen bad times. The first place in the expansion puzzle was put in place earlier this year. Hansa took over Deutsche

Lettische Bank, the loss-making fifth-largest Latvian institution, in a share swap worth EKR138.8m. DLB surprised many with a quick rebound, reporting a EKR1.1m profit in the first half of 1996.

"We define our market as the Baltic market," Mr Tamjärv says. "Growth is limited in Estonia (a country of 1.5m people). But if things turn out well in Latvia, it would be logical to go into Lithuania".

Analysts believe, the deeper pockets of Hansa, the biggest bank in the three Baltic countries, can steal corporate clients from Latvian competitors. Latvian banks are still reeling from a banking crisis last year, when nearly 40 per cent of the sector went under with Banka Baltija, then the biggest regional bank.

But expansion carries risks - particularly in Latvia, where banks had come to rely on Russian transit trade capital in a loosely regulated environment.

However, the bank believes the strategy will pay off in the long term. The diversification of its loan portfolio will reduce the impact of a shock in any one of its markets. All three countries are expecting

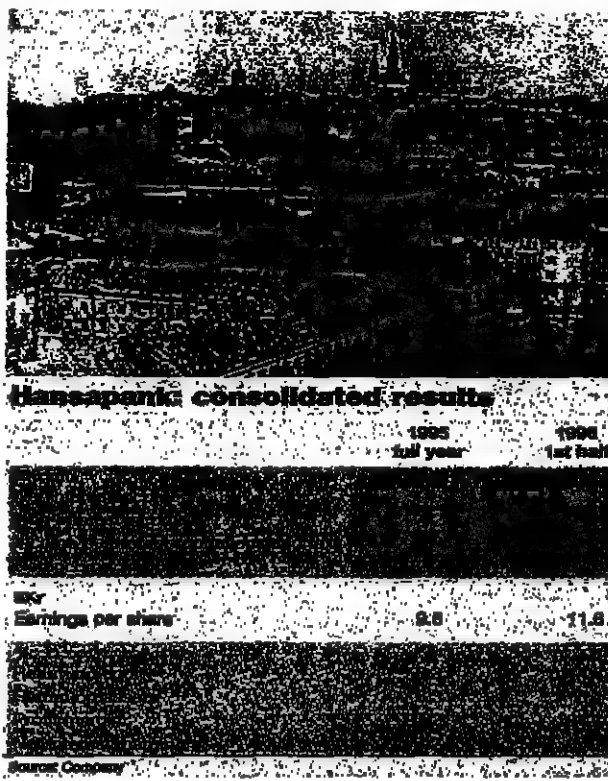
strong export-led economic recoveries.

Hansa's growth has been fuelled by corporate and international financing business, although traditional and stable fee and deposit areas are strong too, with non-interest income accounting for 45 per cent of the total in the first half. The danger for Hansa, and Estonian banks with low reserves, is that bad loans would accumulate quickly in a recession.

To spread itself, Hansa has moved aggressively at home. The best-performing subsidiary was Hansa Leasing, showing a EKR18.1m profit through June. Its insurance arm, launched this year, will take longer to show a return.

The group has also attempted to develop in investment banking, with mixed results. Two funds put up by its Hansa Investments subsidiary never took off. But Hansa Invest has handled several large share issues, including a forthcoming one for Holupank, a savings bank.

The markets have not ignored the success. Hansapank stock began the year at EKR40 in Estonia, and trades near EKR90 today. Trading



volumes have been smaller in Helsinki, but the share price went up from FM16 to FM38 in the same period.

"Hansapank is the best way for foreign investors to gain exposure to the Estonian market," says Mr Ron Byrstedt, head of equities at Enskilda Securities in Helsinki, though he warns that Hansa stock lacks liquidity.

Another analyst says Hansapank, apart from Gasпром

and Lukoil, the two large Russian energy groups, might be the "most lucrative stock in the ex-USSR". Compared with similarly sized central European banks, says Nomura, it is selling at a discount.

Judged by its present strengths, analysts believe, Hansa could become the dominant regional bank.

Matthew Kaminski

This announcement appears as a matter of record only.

## U.S. \$800,000,000

### Princes Gate Investors II, L.P.

We are pleased to announce the first closing of Princes Gate Investors II, L.P., a private equity fund that makes non-controlling short- to medium-term investments in or alongside companies and financial investors throughout the world.

An affiliate of the undersigned is the general partner of Princes Gate Investors II, L.P.

## MORGAN STANLEY & CO.

Incorporated

September 18, 1996

**BANK OF GREECE**  
US\$500,000,000  
Floating rate notes 1996  
Notice is hereby given that the notes will bear interest at 6.3125% per annum for the period 18 September 1996 to 18 December 1996. Interest payable on 18 December 1996 per US\$1,000 note will amount to US\$15.56.  
Agent: Morgan Guaranty Trust Company  
**JPMorgan**

**European Investment Bank**  
Italian Lire 350 Billion  
Floating Rate Notes due December 1999  
Notice to the Holders  
Notice is hereby given that the Notes will carry an interest rate of 8.1875% per annum for the period 16.08.1996 to 16.12.1996.  
• ITL 103,481 per ITL 5,000,000 nominal  
• ITL 1,034,809 per ITL 50,000,000 nominal  
Luxembourg, September 18, 1996

**European Investment Bank**  
Italian Lire 300 Billion  
Coupons Floating Rate Notes due 1999  
Notice to the Holders  
Notice is hereby given that the Notes will carry an interest rate of 8.8375% per annum for the period 16.08.1996 to 16.12.1996.  
• ITL 112,980 per ITL 5,000,000 nominal  
• ITL 1,129,801 per ITL 50,000,000 nominal  
Luxembourg, September 18, 1996

**RPS**  
Residential Property Securities No.3 PLC  
1150,000,000  
Class A2 Notes  
Mortgage Backed Floating Rate Notes due 2025  
Notice is hereby given that there will be a principal repayment of £45,000 per £100,000 Note payment to China (Sh) of the Notes on the interest payment date 27th September 1996. The principal amount outstanding on 28th September 1996 will therefore be £1,055,000,000.  
NATURAL MARK

**REPUBLIC OF PANAMA**  
**CONVOCATION ANNOUNCEMENT**  
**SECOND PRE-QUALIFICATION**

**INTERNATIONAL PUBLIC BID No. 06-96**  
FOR THE SALE OF UP TO 49% OF THE SHARES OF  
THE INSTITUTO NACIONAL DE TELECOMUNICACIONES, S.A. (INTEL, S.A.)  
WITH THE RIGHT TO OPERATE THE COMPANY  
CONDITIONS FOR PRE-QUALIFICATION  
Based on Merits and Background

The Ministry of Treasury, the CEO and legal representative of the Instituto Nacional de Telecomunicaciones, S.A. (INTEL, S.A.), properly authorized by Law No. 5 of February 9, 1995 and by Board of Directors, invite the operators of telecommunications interested in participating in the International Public Bid No. 06-96 for the sale of up to 49% of the shares of INTEL, S.A., requiring them to submit their credentials to pre-qualify for said process.

The International Public Bid will comprise three stages:

1. Pre-qualification of interested operators;
2. Negotiation and homologation of the documents of the Bid with the prequalified participants;
3. Presentation of financial offer.

The interested party who presents the proposal for pre-qualification must duly validate that it currently meets the following requirements:

**Technical and Quality of Service Requirements**

- Provision of telephone services greater than one and a half million (1,500,000) lines and/or principal clients in service.
- Repair of seventy percent (70%) of telephone faults in twenty-four (24) hours after having received the first complaint and ninety percent (90%) in forty-eight (48) hours after having received the first complaint.
- International plus local calls completed greater than ninety percent (90%).
- Connections of new telephone services greater than ninety percent (90%) within thirty (30) days after having received the request.

**Financial Requirements**

- Possess a minimum consolidated stockholder's equity of two thousand million United States dollars (US \$2,000,000,000.00) as of December 31, 1995, or
- Possess a credit rating for senior unsecured long-term debt greater than Baa2 according to Moody's and BBB according to Standard & Poor's.

**Required Documentation:**

The application must include the following:

1. Application Form for Pre-qualification.
2. Receipt of proof of payment of the Price for the Conditions for Pre-qualification Document.
3. Certification of Credit Rating from Moody's or Standard & Poor's.
4. Certification of the appropriate competent authority validating the legal existence and legal representation of the participant.
5. Power of the natural person who subscribed the application in the name and in representation of the company.
6. Information requested in Annex 1 (Pre-qualification Criteria) of the Conditions for Pre-qualification Document, properly certified by the regulatory entity in the country of origin or, if not available, from external auditors of recognized international prestige.
7. General description of the services offered, validating:
  - Degree of telephone penetration (number of lines each 100 people),
  - Percentage of utilization of the central and transmission network, and
  - Number of employees for each one thousand (1000) lines of access to the service.
8. Annual reports and audited financial statements of the last five (5) fiscal years.
9. Information about the shareholder structure of the company, such as:
  - Percentage of nominal shares with an indication of their significant holders (more than 15%),
  - Percentage of shares which are publicly traded,
  - For those shareholders who control more than five percent (5%), the following is required: name, address, percentage of participation and if have a member in the Board of Directors of the participating company.

**Purchase of the Conditions for Pre-qualification Document:**

The Conditions for Pre-qualification Document can be obtained between September 11 and October 29, 1996, at the INTEL, S.A. offices, located in the 5th floor, Oficina de Reestructuración, in the Torre INTEL, S.A., Condominio Plaza Internacional, Via España, Panama City, Republic of Panama, between 8:00 a.m. and 4:30 p.m. Telephone (507) 269-4511 and Fax (507) 223-3431.

**Purchase Price for the Conditions for Pre-qualification Document:**

The purchase price for the Conditions for Pre-qualification Document is twenty thousand United States dollars (US\$20,000.00) payable by certified cheque or bank cheque to the name of INTEL, S.A. This payment is not reimbursable.

**Purchase Price for the Bid Documents:**

The purchase price for the bid documents to initiate negotiation with prequalified participants is fifty thousand United States dollars (US\$ 50,000.00) payable by certified cheque or bank cheque to the name of INTEL, S.A. This payment is not reimbursable.

**Presentation of the Document for Pre-qualification:**

The presentation of the document for pre-qualification will take place on October 29, 1996 from 10:00 a.m. to 10:59 a.m., in a public ceremony in the Salón de Reuniones del Ministerio de Hacienda y Tesoro, 6to piso del Ministerio de Hacienda y Tesoro, Ave. Perú y Calle 36, Panama City, Republic of Panama. The interested parties can submit their credentials about the Pre-qualification Process in writing to Ministerio de Hacienda y Tesoro until October 14, 1996, via telex (507) 227-2337, P.O. BOX 7304, Panama, 5, Panama, Attn: Osmeo David Miranda Jr., Ministry of the Treasury.

**Legal Basis:**

Law No. 5 of 1996, "by which the Instituto Nacional de Telecomunicaciones is Restructured", Law No. 26 of 1996, "by which the Regulatory Entity for Public Services is created", and Law No. 31 of 1996, "by which dispositions for the Regulations of Telecommunications in Panama are enacted".

Osmeo David Miranda Jr.  
Ministry of the Treasury

Juan Ramon Ferras  
CEO of INTEL, S.A.



## COMPANIES AND FINANCE: ASIA-PACIFIC

## Lower tax helps David Jones beat prospectus

By Bruce Jacques in Sydney

David Jones, the Australian department store retailer, has narrowly beaten its prospectus forecasts with net earnings of A\$97.5m (US\$63.2m) in the year to July, its first as a public company.

The performance was attributed mainly to a lower than expected tax bill. The net profit was 4.5 per cent ahead of the prospectus, while the A\$98.3m pre-tax result was 11.5 per cent below forecast.

Tax provision halved to A\$18.6m

due to recognition of previously unbooked tax benefits of A\$41.2m. The company will pay a final dividend of 6 cents a share, bringing the annual payout to 12 cents, in line with the prospectus.

Sales, at A\$1.44bn, were 2 per cent below forecast, which was blamed on weaker consumer demand. The company described the result as "disappointing", blaming difficult trading conditions, especially in the second half.

The company earned more than two-thirds of its annual profit in

the first half, which included the Christmas period, and David Jones chief executive Mr Chris Tideman warned of continued tough market conditions in retailing.

"The company protected its margins by not aggressively pursuing discount activity," he said. "Retail sales in August have generally continued at similar levels to that experienced in the fourth quarter."

"The strength of our market position will ensure that we are well placed to benefit when the retail environment improves. However, the company does not expect any material improvement in the retail environment in the short term."

Mr Tideman outlined a programme of heavy capital expenditure, involving new stores, refurbishments and investments in information technology. Capital expenditure rose from A\$46.5m to A\$59m in the latest year.

He also foreshadowed continued restructuring of the business, including improved stock control and staff rostering and the establishment of a new credit system. The company terminated its credit card securitisation arrangements in the year, bringing A\$165m of credit card receivables on to the balance sheet. This was mainly financed by a draw-down of a \$125m facility.

The result was an increase from A\$130m to A\$250m in long-term borrowings and a rise from A\$10m to A\$12.2m in interest expense.

The shares eased 1 cent to A\$1.65 yesterday, against a peak of A\$2.09 after flotation late last year.

## Weak markets trading hits Nikko forecast

By Emiko Terazono in Tokyo

Nikko Securities, one of Japan's Big Four brokers, yesterday slashed its interim and annual earnings forecasts as sluggish summer trading on the Tokyo Stock Exchange hit commission revenue.

The broker said it now expected Y20bn (\$181.2m) in unconsolidated recurring profits - before extraordinary items and tax - for the first half to September, down 23 per cent from the previous year and little over half its initial projection of Y38bn.

Parent interim after-tax profits are now expected to total Y9bn, down 48 per cent from a year before and half its earlier forecast of Y18bn. Operating revenues were also revised downwards, from Y105bn to Y128bn, close to last year's total.

Nikko, which is the country's third-largest broker on a operating revenue basis, following Nomura Securities and Daiwa Securities, blamed the unexpected downward revision on the trading slump in July and August, when overseas and domestic investors refrained from activity on fears of an imminent cut in interest rates and volatility on Wall Street.

Overseas investors, who

had been the leading buyers at the start of the year, turned net sellers. This amid concerns of extra supply as banks announced they would dip into the market to boost their capital ratios.

The auction ahead of the partial privatisation of West Japan Railway, scheduled for next month, also dampened activity.

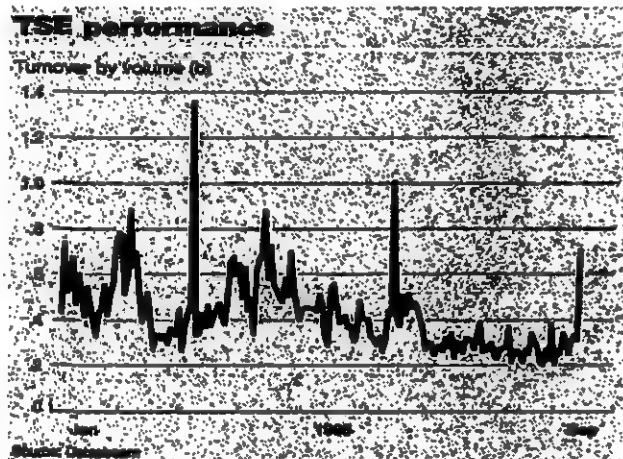
Although the company had expected daily trading volume on the Tokyo Stock Exchange to average Y500bn during the first half, the actual figure was only Y430bn. Analysts expect other brokers to follow Nikko in revising earnings projections downwards.

The decline in market activity resulted in a 9.3 per cent fall in first-half brokerage commission revenue forecasts, to Y118bn, including a cut in stock brokerage commission projections from Y61bn to Y44bn, said Mr Katayama Ichikawa, a senior managing director. The company also suffered from a decline in other stock market fees and profits on its own portfolio trading.

Nikko also cut its earnings estimate for the full year to March. Mr Ichikawa said the company would try to regain lost ground from faltering stock commissions in the first half through gains in stock and bond trading on its own account.



Looking for business: share trading in Japan



during the second term. The company now expects full-year unconsolidated recurring earnings to fall 7.7 per cent from the previous year, to Y60bn, and after-tax profits to decline 28.8 per cent to Y32.7bn. Operating revenues are expected to rise 1.5 per cent to Y300bn.

## First Pacific arm to manage Bonifacio site

By Edward Luce in Manila

First Pacific Davies, the property arm of Hong Kong-based First Pacific, yesterday signed an agreement to manage the development of Manila's 440 ha Fort Bonifacio development. It billed the contract "as one of the largest of its kind in the world".

The deal, whose value was not disclosed, gives First Pacific 40 per cent of a joint venture to oversee the 20-year to 25-year development of Bonifacio city. With 8.5m sq m to develop - roughly the size of Boston's business district in the US - the company would be "master-planning" the largest urban project in the Philippines.

"We cannot begin to estimate the revenue stream from this," said Mr Lindsay Orr, head of First Pacific Davies's Philippines office. "We basically have a 50-year contract to manage the horizontal development of Bonifacio, including property services, land administration and infrastructure."

Fort Bonifacio Development Corporation (FBDC), which is 55 per cent owned by a 17-member private consortium led by Metro Pacific, First Pacific's Philippine holding company, and 45 per cent by the Philippine government, plans to break ground on the development by the end of the year.

The project, which will produce a business centre twice the size of Makati, Manila's main business district, will also include an underground railway, an overground railway terminal, and residential capacity for up to 500,000 people. The consortium, which paid a record 99bn pesos (US\$1.5bn) last year for its 214 ha share of the site, is expected to list on the Philippine stock exchange next year.

It has already pre-sold lots covering 16 ha, at an average price of 180,000 pesos a square metre, or more than five times the original auction price. The consortium also plans to set up a university in the city and has signed a memorandum of understanding with Harvard University to build a medical centre.

First Pacific Davies, which will hand out sub-contracts for the water, telecommunications and transport infrastructure, will be paid on a fee basis for services provided.

With Smart Communications, the telecoms arm of Metro Pacific, having already been awarded the government contract to install phones, analysts say it is clear the project will be dominated by First Pacific and its subsidiaries.

Philippines Survey - separate section

## ASIA-PACIFIC NEWS DIGEST

## Kyocera to spin off solar energy unit

Kyocera, the Japanese producer of high-performance ceramics and electronic components, is to spin off its home solar energy business into a separate company. Kyocera said the split was designed to help the unit boost marketing to residential buyers, leaving the parent to concentrate on research and development and sales of solar energy equipment to industrial users. The spin-off is an unusual step for a Japanese company, as they tend to keep diversifications in-house in keeping with their corporate group ethic.

The new company, Kyocera Solar Corporation, will be launched on Friday with capital of Y300m (\$2.7m) and a staff of 110, mostly sales people, to start operations in November. It aims to have 100 sales outlets in Japan by the end of the decade, with annual sales of Y60bn in solar panels and water boiling equipment. Kyocera bases the projection on the growing trend for environmentally-friendly products among the Japanese. It believes Japan will be one of the first countries to feel the effects of an eventual oil shortage in the future.

Solar energy is a small part of Kyocera's business. Its financial results are not disclosed in detail, but solar equipment is part of its consumer products division, which reported sales of Y39bn, or 5.6 per cent of the group total, in the year to last March. Kyocera's consolidated sales rose nearly 30 per cent to Y647.1bn last year, on which pre-tax profits more than doubled to Y163.7bn.

William Dawkins, Tokyo

## LG Semicon IPO still on

LG Semicon, the semiconductor unit of South Korea's LG Group, will proceed with a Won200bn (\$341.3m) initial public offering today and tomorrow in spite of a sharp fall in global semiconductor prices and a weak Seoul stock market. LG Semicon, which will be listed on the Seoul stock exchange on November 5, predicts that 1996 net earnings will fall 88 per cent to Won132m, as sales decline 2.9 per cent to Won2,440bn.

The subscription price for the 10m shares on offer is set at Won20,000 each, with an individual investor limit of 1,000 shares. Samsung Electronics, the only big Korean semiconductor company that is listed, is now trading at Won55,500.

In spite of the poor market conditions, equities analysts say LG Semicon must proceed with the IPO because of the possibility of it still recording a loss this year, which would prevent it from gaining a listing until at least 2000. Under Seoul stock exchange rules, no company can issue an IPO until it has reported three consecutive years of net earnings of at least Won5bn.

Hyundai Electronics, another Korean semiconductor manufacturer, plans a Won200bn IPO in November that will be almost identical to the LG issue, with a subscription price of Won20,000 a share.

John Burton, Seoul

## Nintendo game for Europe

Nintendo, the Japanese computer games group, yesterday said it would start selling its new 64-bit video game machine Nintendo64 in Europe next March.

The machine will be sold in Germany for DM399 (\$394), but prices for other countries have yet to be announced. The machine was launched in Japan in June and will appear on the shelves in the US at the end of this month.

Agencies, Tokyo

NOTICE TO THE HOLDERS OF INTERNATIONAL DEPOSITORY RECEIPTS ISSUED BY MORGAN GUARANTY TRUST COMPANY OF NEW YORK, IN RESPECT OF SHARES OF US\$0.10

## THE KOREA-EUROPE FUND LIMITED

(Incorporated with limited liability under the laws of Germany, registered number 16612)

## 1 for 3 Rights Offer of new IDRs at US\$3.125 per new IDR

This Notice is given pursuant to Clause 24 of the deposit agreement dated 3rd April, 1997 between The Korea-Europe Fund Limited (the "Company") and Morgan Guaranty Trust Company of New York (the "Depository"), as supplemented by letters dated 11th July, 1995, 13th March, 1996, 15th June, 1996 and 16th September, 1996 from the Depository to the Company (the "Deposit Agreement"). Terms defined in the Deposit Agreement shall, unless otherwise defined herein, bear the meaning assigned in this Notice. This Notice is not addressed to persons holding IDRs through Brokers or Codels, and such persons should refer to the instructions given to them by Brokers or Codels.

1. **Background**  
On 16th September, 1996 the Company announced a 1 for 3 rights issue (the "Rights Issue") of 11,175,498 shares of US\$0.10 each (the "New Shares"). Pursuant to the Rights Issue the Depository (or its nominee) has been previously allowed 1 New Share for every 3 New Shares held by it on the record date for such Rights Issue.

2. **Rights Offer**  
Accordingly, the Depository hereby offers to issue to each IDR-Holder, subject to (i) the admission of the New Shares to the Official List of the London Stock Exchange becoming effective by not later than 8.30 a.m. on 18th September, 1996 (or such later time and/or date as the Company and Robert Fleming & Co. Limited ("RFL") may agree, not being later than 8.30 a.m. on 23rd September, 1996) and (ii) the Depository (or its nominee) receiving share certificates and/or a fully paid provisional allotment letter or letters in respect of the complete number of New Shares, and subject to the terms and conditions set out in the Notice and the Acceptance Form referred to below, 1 IDR for each 3 IDRs held by him at an issue price of US\$3.125 for each new IDR (each offer being referred to herein as the "Rights Offer"). Fractions of new IDRs will not be issued, and IDR-Holders may become entitled to receive cash under the procedures described in paragraph 4 below. The new IDRs, when issued, will rank *par passu* in all respects with the IDRs now in issue, save that they will not qualify for the special dividend declared by the Company on 11th September, 1996. IDR-Holders wishing to accept the Rights Offer must obtain special acceptance forms ("Acceptance Forms") from the Depository by telephoning on (022) 508 8469.

In connection with the Rights Issue the Company has published a Circular comprising listing particulars for the purpose of the listing of the London Stock Exchange. Copies of such Circular may be obtained by IDR-Holders from the Company's principal office at Sumner House, 55 Queen Victoria Street, London EC4V 4ED and from Plannings at 25 Coptic Hall Avenue, London EC2R 7DR.

3. **Acceptance and Payment**  
An IDR-Holder wishing to accept the Rights Offer must deliver an Acceptance Form duly completed and signed, together with (i) a remittance for the full amount payable on acceptance and (ii) the relevant number of Company No. 10 (being 3 Coupons for each 1 new IDR accepted), to the Depository at its office at Avenue des Arts 35, B-1049 Brussels, Belgium (except for the attention of Korea Depository) no later than 10.00 a.m. (local time) on 18th October, 1996. References in this Notice to an "IDR-Holder" shall, where the context so admits, be construed as references to a holder or to holders of Company No. 10.

Unless previously agreed with the Depository, payments must be made by a dollar banker's draft drawn on a New York bank. Bankers' drafts should be made payable to the "Morgan Guaranty Trust Company of New York, Brussels Office" and crossed "A/C Payee". No interest will be allowed on payments made. The Depository reserves the right to present bankers' drafts upon receipt and to seek special clearance of bankers' drafts to obtain values for remittances at the earliest opportunity.

The Depository reserves the right to treat an Acceptance Form as valid and binding on the person(s) by whom or on whom behalf it is lodged even if it is not duly completed or not accompanied by a valid power of attorney where required.

All documents and remittances will be sent to or by IDR-Holders (or their agents) at the risk of such persons.

4. **IDR-Holders who do not accept the Rights Offer**  
If New Shares are not taken up under the Rights Issue, Plannings, as agent for the Company, will (subject to certain exceptions) interest its agents to endeavour to procure, by not later than 2.00 p.m. (London time) on 30th October, 1996, subscribers for such New Shares as to be received, not later than 10.00 a.m. (local time) on 30th October, 1996. Any such not proceeds received by the Depository (or its nominee) or its agents shall be allocated (without interest) *pro rata* to those IDR-Holders who have, or to the extent that they have, not accepted the Rights Offer (including to those IDR-Holders holding a number of IDRs which is not divisible by three, who therefore cannot accept the Rights Offer to the full extent of their proportionate interest in the Company's share capital (to the extent that they are first able to accept the Rights Offer)). Payment of an IDR-Holder's entitlement (if any) to such not proceeds will be made against surrender of Company No. 10 at the specified office of an Agent (see the list of this Notice).

5. **Issues of new IDRs**  
Save as described in the following paragraph, new IDRs are expected to be issued and dispatched by post on, or soon after, 8th October, 1996 at the risk of the person(s) entitled to them. New IDRs will be sent to an IDR-Holder at the address indicated on the Acceptance Form submitted by him.

Any new IDRs issued pursuant to the Rights Offer to Brokers or Codels will be represented, initially, by a temporary global IDR which will be exchangeable for definitive IDRs in accordance with its terms.

6. **Overseas IDR-Holders**  
(a) **General**  
The offer of new IDRs pursuant to the Rights Offer to persons who are residents in, or citizens of, countries outside the United Kingdom ("Overseas IDR-Holders") may be affected by the law of the relevant jurisdiction. Such persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to accept the Rights Offer.

This Notice does not constitute an invitation or offer to such an IDR-Holder, in the relevant territory, such an invitation or offer could lawfully be made to him without consideration of any regulation or other legal requirements.

It is the responsibility of any person (including, without limitation, spouses and trustees) outside the United Kingdom wishing to accept the Rights Offer to satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any taxes, transfer or other taxes due in such territory. Overseas IDR-Holders who are in any doubt as to their position should consult their professional advisers.

In cases where Overseas IDR-Holders do not accept the Rights Offer, or where their acceptances are treated as having been declined or invalid, the provisions of paragraph 4 above will apply. The Depository reserves the right to treat as invalid any acceptance or purported acceptance which appears to the Depository or its agents to have been executed, effected or dispatched in a manner which may involve a breach of the securities legislation of any jurisdiction or that does not satisfy the warranty set out in the paragraph headed "Overseas Shareholders" in the Acceptance Form.

(b) **United States of America and Canada**  
The Company is not and will not be registered under the United States Investment Company Act of 1940, and the new IDRs have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or under the securities legislation of any province or territory of Canada. None of the IDRs may be offered, sold, taken up or delivered within the United States or Canada except in certain transactions exempt from the registration requirements of the Securities Act. Accordingly, subject to certain exceptions, the Rights Offer is not being made in the United States or Canada and Acceptance Forms will not be sent to IDR-Holders with addresses in the United States or Canada.

Acceptance Forms should not be postmarked or otherwise despatched from the United States or Canada and all persons wishing to acquire new IDRs must provide addresses outside the United States or Canada for the delivery of new IDRs. The Depository reserves the right to treat as invalid any Acceptance Form which appears to the Depository or its agents to have been executed in or despatched from the United States or Canada or which provides an address in the United States or Canada for the delivery of new IDRs or from any person who does not make the warranty which will be set out in the paragraph headed "Overseas Shareholders" in the Acceptance Form.

Until 40 days after the completion of the Rights Issue any offer, sale or transfer of any new IDRs within the United States by any dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the Securities Act.

(c) **Korea**  
None of the new IDRs may be offered or sold, directly or indirectly, or offered or sold in the Republic of Korea or to any person for re-offering or resale, directly or indirectly, in any of the Republics (as that term is used for the purposes of the Foreign Exchange Management Act of Korea) except pursuant to applicable Korean laws and regulations.

(d) **Other overseas territories**  
IDR-Holders resident in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their entitlement.

AGENTS  
Morgan Guaranty Trust Company of New York

60 Victoria Embankment  
London EC4V 0UP

Rechtsanwalt, S.A. Luxembourg  
43 Boulevard Royal  
Luxembourg L-2555

Rechtsanwalt  
60912 Frankfurt

Dated 18th September, 1996

Issued by Morgan Guaranty Trust Company of New York

Deloitte & Touche Corporate Finance  
are pleased to have acted as accounting and  
company advisers to:

**GRANADA**  
GRANADA GROUP PLC

In their capacity of:

**Forté plc**

Deloitte & Touche Corporate Finance  
are pleased to have acted as lead advisers to:

**BRITANNIA MARINE**  
BRITANNIA MARINE PLC

Recommended offer for:

**Britannia Marine plc**

Deloitte & Touche Corporate Finance  
are pleased to have acted as corporate finance advisers to:

**BRANDON HIRE**

In connection with their completion over the past 12 months:

BRANDON HIRE The company's financial statements are audited by Deloitte & Touche.	BRANDON HIRE The company's financial statements are audited by Deloitte & Touche.
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Deloitte & Touche Corporate Finance  
are pleased to have acted as lead advisers  
in the sale of:

**Dopra Systems Integration Ltd**

to:

**Securicor Group**

Deloitte & Touche  
Corporate Finance

For further information contact John Connolly or Ian Jamieson on 0171 936 3000.

Deloitte & Touche Corporate Finance is a division of Chartered Accountants Deloitte & Touche, which is authorised by the Institute of Chartered Accountants in England and Wales to carry on Investment Business. This advertisement appears as a matter of record only.

مكتبة الامير



## COMPANIES AND FINANCE: THE AMERICAS

## Canada probes small companies' financing

By Bernard Simon  
in Toronto

Canada's securities industry has launched an investigation into the financing of small companies.

The inquiry, under the auspices of the Investment Dealers Association, comes amid rising concern about the role of underwriters, research analysts and retail brokers in supporting the

speculative mining and energy issues that are a feature of Canada's resource-based markets.

These issues make up a substantial portion of some securities firms' business and enjoy a significant following among US and European investors.

Several cases have surfaced recently in which securities industry employees involved in raising funds for a junior company turned

out also to be sizeable shareholders.

In at least one instance, an employee sold his shares shortly before the company's share price crashed.

The most publicised case involved Alberta-based Cartaway Resources, whose shares soared to a peak of C\$26 earlier this year on hopes that its exploration property in Labrador contained a rich nickel deposit.

The shares tumbled to less than C\$2 after disappointing drill results.

It was subsequently revealed that employees at First Marathon Securities, one of the most active underwriters of speculative resource issues, at one time built up a 45 per cent stake in Cartaway.

Questions have also been raised about the timing and disclosure of their transactions.

The inquiry will be conducted by a 12-member panel, a third of whom are from outside the securities industry. It is expected to make recommendations to provincial securities commissions and stock exchanges by the end of the year.

Mr Ian Russell, vice-president of the Investment Dealers Association, said the inquiry will review rules on securities firm employees acting as promoters, shareholders, directors and officers of small companies.

Opinions are divided within the securities industry itself on the best course of action.

At a minimum, the panel is expected to recommend tightening disclosure rules, which at present fall well short of US standards.

Both companies have grown rapidly by buying out small family funeral parlours in the US and Canada. More recently, SCI has turned its attention overseas with sizeable acquisitions in the UK and France. SCI said competition issues could be settled through selected divestitures without impairing the value of the merged entity.

## AMERICAS NEWS DIGEST

## SCI in \$2.5bn bid for Loewen

Houston-based Service Corporation International, North America's biggest funeral operator, has made a US\$2.5bn all-share offer for its main rival, Vancouver's Loewen Group. Loewen gave a non-committal reply to SCI's surprise takeover yesterday, saying that its board would review the offer and respond "in due course". SCI's bid, equivalent to US\$43 a share, represents a 27 per cent premium above Loewen's price prior to yesterday's offer.

Mr Ray Loewen, the company's founder and chief executive, is the biggest single shareholder, with 15 per cent. Another 43 per cent of the shares are in institutional hands. Loewen's share price soared by C\$7.90 in Toronto to C\$54.40 shortly before yesterday's close.

Both companies have grown rapidly by buying out small family funeral parlours in the US and Canada. More recently, SCI has turned its attention overseas with sizeable acquisitions in the UK and France. SCI said competition issues could be settled through selected divestitures without impairing the value of the merged entity.

Bernard Simon, Toronto

## Prince to negotiate new record contract

By Alice Rawsthorn

Prince, one of the best-selling pop stars of the 1980s, has started talks with a number of the world's largest record companies hoping to clinch a new recording contract.

The notoriously temperamental singer recently ended a 19-year association with Warner Music, part of Time Warner, the US entertainment group, after a series of rows culminating in his changing his name to an unpronounceable symbol and appearing in public with "Slave" on his cheek.

Last month, Prince delivered the last of the six albums under his Warner contract, which was one of the most lucrative in the music industry when it was signed in 1977.

He has since been free to negotiate with other companies and is understood to have approached several over the summer, including EMI, Sony, PolyGram, BMG and MCA, but not Warner.

Sales of Prince's records have fallen significantly since his heyday in the 1980s, when he was one of the world's most commercially successful pop performers. His recent albums have generated weak sales.

However, Prince is still regarded as an extremely talented figure and it is rare for an artist of his calibre to come on to the market.

Most of the large labels are believed to have expressed interest in signing him.

"Of course we are interested in Prince," one senior music executive said. "He is an incredible talent, who would bring tremendous kudos to any label. And he is still a big name, which is always worth money in a high-risk business."

The critical question for the record companies is how much Prince is worth, particularly as Warner is entitled to hold on to his potentially lucrative back catalogue of past releases for at least three years.

He has started negotiations when pop stars are commanding increasingly generous terms from record companies, as illustrated by the \$80m, five-album deal that the group R.E.M. signed with Warner last month.

Prince is believed to be insisting on steep terms. His last Warner deal not only gave him large advances and high royalties, but made him a vice-president of the company and required Warner to invest \$25m in setting up Paisley Park, his "vanity" record label.

Warner has had considerable success with other vanity labels - Madonna's Material, the Canadian singer who has since sold more than 17m copies of her debut album worldwide. Paisley Park's sales, however, have proved disappointing.

The chief challenge for the record companies now in talks with Prince is to gauge whether he can return to his old superstar status.

## Growing big in the business of growth

Potash Corporation's acquisitions have won admiration and quadrupled sales

Potash Corporation of Saskatchewan has generated a rare level of adulation in an industry not renowned for glamour.

The fertiliser producer, based in the heart of the Canadian prairies, has won admiration for a series of bold acquisitions that have more than quadrupled its sales since the Saskatchewan provincial government privatised it in 1988. Furthermore, the expansion has taken place without financial or management strains.

The two latest purchases - one in Europe, the other in the US - will almost double its size again, bringing annual sales to about US\$4bn. They will give PCS control of about half of world trade in potash (the common name for potassium chloride), as well as extending its interests from two of the main plant nutrients, potassium and phosphates, to the third, nitrogen.

The company has offered to buy 51 per cent of Kali und Salz, which has a virtual monopoly on the German potash market, as well as a significant export busi-

ness. The addition of K & S is also expected to increase PCS's bargaining power with China, the world's biggest fertiliser importer. K & S had a total market value of about DM1bn (\$662m) when the proposed deal was revealed last month.

The move into nitrogen would result from a friendly US\$1.2bn offer for Tennessee-based Arcadian Corp, the biggest nitrogen producer in the western hemisphere. PCS beat a bid by Freeport McMoran, the New Orleans-based mining and fertiliser group, which indicated that it would not return to the fray.

Mr Charles Childers, PCS's chief executive for the past nine years, said the Arcadian deal was "not dependent on synergies". "We did it because this company is attractive to our shareholders by itself," he added.

One attraction is that 40 per cent of Arcadian's products, which include urea, nitric acid and ammonium nitrate, go to industrial customers rather than the fertiliser market.

PCS already controls

about 22 per cent of world potash capacity from mines in Saskatchewan, New Brunswick and Utah, and almost half of estimated reserves. The Saskatchewan mines, sitting atop a rich belt of potash almost 1,000km long and 160km wide, are among the lowest cost producers.

The expansion into phosphates, starting with the April 1996 acquisition of North Carolina-based Texasgulf, has given PCS an 8 per cent share of world production and 7 per cent of capacity. According to Mr Childers, if the company was going to grow, it had to move into something else.

"We've gone from being a major potash producer to being a major fertiliser producer," he explained.

It would be surprising, however, if the addition of a third leg did not strengthen PCS's two other businesses. Mr Childers says that when PCS entered the phosphates business last year, some Texasgulf customers switched their potash business to PCS.

Mr Don Pettison, analyst

at Deutsche Morgan Grenfell in New York, says PCS's attractions go beyond its bold growth strategy. He also credits PCS with being a leader in mining technology, tax planning and marketing.

Mr Pettison predicts that PCS's earnings, which reached \$180m, or \$3.98 a share, in 1995 will grow by an average of 50 per cent a year for the next five years. He forecasts 1997 earnings at \$5 a share, up from \$6 this year.

Others wonder, however, whether the curve will be quite so steep. PCS's share price, which has more than quadrupled in the past three years, lost ground after news of the Arcadian bid. The shares were trading at C\$101.25 in Toronto early this week, down from their C\$110.88 peak.

Nitrogen producers generally trade at lower price-earnings multiples than suppliers of other fertiliser raw materials. While potash and phosphates are mined, nitrogen is manufactured. As a result, the nitro-

gen market is seen to be more vulnerable to excess capacity.

Fertiliser prices have traditionally been volatile. But PCS and its fans contend that the company can only benefit in the long run, as rising living standards lift demand for food and improve crop quality in rapidly developing countries such as China and India.

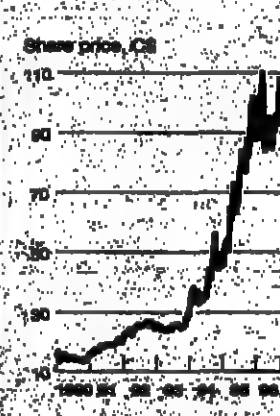
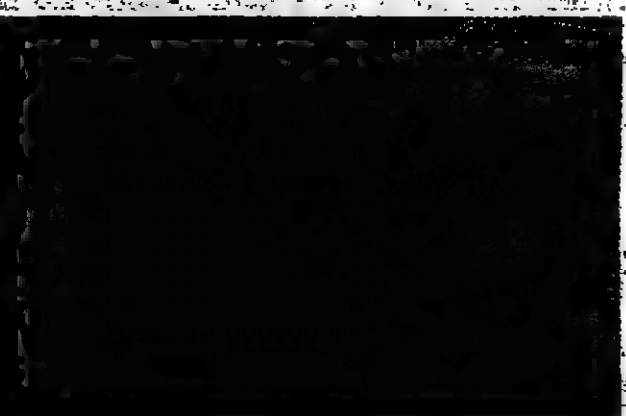
In PCS's last annual report, Mr Childers said the company believed there would be continued growth in fertiliser consumption. "That growth may not be steady, but the trend line will definitely be up," he added.

Even the \$600m of extra debt required to finance the Kali und Salz and Arcadian acquisitions have raised few concerns in the investment community.

Total debt will rise to between \$1.3bn and \$1.4bn, or 42 per cent of capital. But Mr Pettison expects PCS will be able to repay the extra borrowings within three years.

Bernard Simon

## Potash Corporation of Saskatchewan



## Fertiliser industry recovers as the world's diet changes

The global fertiliser business is smelling like a rose, with demand and prices for leading fertiliser components rising as world grain stocks shrink and diets in developing nations shift to grain-intensive proteins such as beef, pork and poultry.

Grain prices tend to drive fertiliser demand, with high prices for harvested crops giving farmers an incentive to add more soil nutrients and expand plantings. Maize prices reached their highest level in a decade this summer as the world's grain surplus fell to 35-year lows, sparking a surge in fertiliser use.

This season's US harvest will be larger than last year's, but not enough to rebuild global foodstocks. Forecasters now say that grain prices may stay near historic highs for another two years, and that fertiliser prices should follow suit.

Although the miracle fertilisers produced in the "green revolution" of the 1960s are unlikely to be duplicated, more and smarter use of soil nutrients is expected to be central to feeding the expanding diets of China and other fast-

developing Asian nations. This is good news for the global fertiliser industry, which has been battered by two decades of over-supply, weak markets and practices aimed more at maintaining market share than generating profits.

"Most of the good-old-boy style managers have been replaced by real businessmen at the major companies," says Mr Doug Grob, a chemicals industry analyst for Merrill Lynch.

While there were nearly 100 fertiliser producers in North America 20 years ago, just a handful now dominates the extraction and processing of the three main nutrients needed to boost soil productivity: potassium, phosphorus, and nitrogen.

Two mineral giants, Potash Corp of Saskatchewan and Chicago-based IMC Global, compete for dominance in both potash (mined to produce potassium) and phosphates (mined to produce phosphorus). Both have formed partnerships or executed mergers in the past few years that have allowed them to diversify into nitrogen-based fertilisers as well.

Of the three main nutrients, phosphate rock is the one in tightest supply, with the US controlling the single largest share (30 per cent) of world production. IMC Global, in a joint venture with natural resource company Freeport McMoran, accounts for 42 per cent of US phosphate rock production, followed by Potash Corp and the privately-owned Cargill.

IMC-Agrico, the three-year-old partnership between IMC and Freeport, is credited with taming fractious competition between smaller phosphate producers in Florida, where much of the US phosphate reserve is concentrated.

"Very responsible supply management practices by IMC-Agrico and the inevitable return of export demand have helped to drive [phosphate] inventory levels down," wrote Mr David Nelson, fertiliser analyst for NatWest Securities in a recent report on the fertiliser industry. Phosphate rock supplies are expected to tighten considerably within 10 years, and NatWest estimates replacement costs of at least \$40 a ton, double the current price.

Laurie Morse

## Bank of Cyprus Capital Raising Program

The Bank of Cyprus Group announces today its proposed capital raising program.

In this context, the Boards of Directors of Bank of Cyprus (Holdings) and Bank of Cyprus, wish to announce today, subject to approval by the shareholders of the Group to be requested at an Extraordinary General Meeting which is planned to take place on 2.10.96 at the Bank of Cyprus Group Head Quarters, that the Group proposes to proceed with an offering of up to CY50 million Subordinated Convertible Bonds to be issued by Bank of Cyprus.

These securities will be convertible at the option of the holder into ordinary shares of Bank of Cyprus (Holdings), at a conversion price which will be in excess of the share price at the time of the proposed offering. The proposed offering will be directed primarily (CY35 million-CY40 million) to international investors, reserving at least CY10 million of securities to be offered to local investors, with priority to be given to existing shareholders.

It is also the intention of the Group to make a CY25 million rights issue on or after the 1st May 1997 and for this purpose a resolution will be placed before the Bank of Cyprus (Holdings) Board, in due course.

The proceeds of the capital raising program will be used to strengthen the Group's capital adequacy ratios and to underpin the development of the Bank.

Salomon Brothers International Limited will act as Lead Manager of the International tranche of the proposed offering, for which a small syndicate will be formed. The Cyprus Investment and Securities Corporation Ltd ("CISCO"), a wholly owned subsidiary of the Group, will act as Advisor to the Bank as issuer.

The terms and timing of this proposed Convertible Bond offering will reflect market conditions, and details will be announced in the near future. This is the first time that an international bond in Cyprus pounds will be issued by a Cypriot issuer. Upon conversion of the Bonds, the shareholder base of the Group will be broadened with the participation of international investors in a range of 75-95%.

The proposed Convertible Bonds will be listed on the Luxembourg Stock Exchange and will be the first Cypriot financial instrument to be listed on a European Stock Exchange.

## 3DO looks to shed hardware side

By Louise Kahoe  
in San Francisco

3DO, the struggling US video game machine and software company, plans to sell its hardware business or move it into a joint venture, the company announced.

About 150 people, one-third of the company's workforce, will lose their jobs in the restructuring. 3DO will now concentrate on software, the company said, with a new focus on games to be played on the Internet.

"The Internet, and Internet entertainment in particular, is a huge opportunity," said Mr Trip Hawkins, chair-

man and chief executive.

The restructuring represents an about-face for 3DO, which had attempted to create a new type of video game machine with better graphics and sound. The 3DO machines, however, turned out to be much more expensive than competing systems from market leaders Sega and Nintendo.

Last year, Toshiba and Goldstar cancelled plans for new 3DO machines, while Matsushita Electric, a 3DO shareholder, agreed to pay \$100m for the rights to the next generation of technology.

"Now we can concentrate

on our most compelling entertainment software projects, while spending less capital, making better products, and getting into position for Internet-driven growth," Mr Hugh Martin, 3DO president, said.

Mr Charlie Christ, vice-president and general manager of Digital Equipment's components business, is to be chairman of Alta Vista, Digital's fast-growing Internet search and software business, while the unit is floated later this year, Paul Taylor writes.

Alta Vista, which provides users with a powerful Internet search facility, has

grown quickly since it was set up earlier this year in competition with other Internet search companies such as Yahoo! and Lycos.

Mr Christ, speaking at the International Data Corporation IT Forum in Paris, said Digital had decided to float the company to maximise shareholder value, and decided against a trade sale because "Alta Vista needs to be independent in order to move quickly".

The Digital executive said the company was "not just a search engine company", and that he expected its valuation to also reflect its software business.







## Roxboro shares slump 25% as destocking prompts downgrade

By Jane Martinson

Shares in Roxboro dropped 25 per cent yesterday, as the specialist electronics group warned weak demand for components would depress this year's profits.

At the same time, the group revealed a fall in interim pre-tax profits from £3.18m (£2.7m) to £2.5m, following start-up costs and manufacturing difficulties.

The warning that second-half profits would be about £8m prompted analysts to cut full-year forecasts by £2m to £16m, the same as 1995. The shares fell 80% to 252 1/2p, their lowest for more than a year.

Mr Harry Tee, group chief executive, said the worldwide slump in demand for electronic components had led to a "significant, sharp decline" in orders and sales in July and August. He said the downturn in a division which contributes about half of group sales resulted from a "massive destocking" in an industry which "went crazy" in 1995.

"I think to some extent this is a correction in the marketplace. There is nothing structurally wrong, we have not lost market share or customers."

Acquisitions helped lift interim sales 20 per cent from £45.8m to £55.1m in the



six months to June 30. Operating profits rose 3 per cent from £2.06m to £2.8m.

Profits were hit by start-up costs of £1m associated with a new range of truck and bus lights. After further charges in the second half, Roxboro said the division should begin to break even at the beginning of 1997.

Manufacturing problems in two companies also hit profits, connected with a number of new products last year, and central costs increased by about £200,000 to £1.6m, after introduction of a long-term incentive plan for senior management.

A number of acquisitions last year led to net debt of £7.8m, representing gearing of 32 per cent, compared with cash of £6.3m in 1995.

## Phoenix Inns pays £250m for Spring

By Roderick Oram, Consumer Industries Editor

Phoenix Inns, backed by Nomura, the Japanese investment bank, is to become one of the largest pub chains in the UK with the £250m (£250m) purchase of Spring Inns from a consortium of financial institutions.

Ran by Mr James Turner, one of four executives on secondment from Nomura, the enlarged Phoenix is considering a flotation within two or three years as one way for its backers to realise their investment.

With the acquisition of Spring Inns' 1,406 pubs, Phoenix will have 2,900, giving it a similar size to Independent Pub Company.

"Spring Inns will give Phoenix greater purchasing power and make it a better proposition for Nomura's investors," one analyst said. The deal is the latest in a flurry in recent years which have swung pub ownership away from brewers and into the hands of independent companies.

Nomura is offering financial advice to the company, but Phoenix will fund the purchase with debt from other sources, Mr Turner said.

## Throgmorton sells stake in Framlington

By Roger Taylor

Throgmorton, the £360m (£362m) investment trust, has sold its 49 per cent holding in Framlington, the UK investment management group, to Munder Capital Management, a US investment management company.

Munder is paying up to £33m for 49 per cent of Framlington in a deal which values the company at 2.5 per cent of funds under management.

Framlington manages funds worth £2.3bn including the Throgmorton Trust.

Munder, based in Michigan, said it had been hunting for a UK investment partner for more than three years. With \$36m under management, it is among the top 75 US investment managers but has very few investments outside the US.

## Taylor Woodrow up 81% helped by contracting side

By Simon London

Improved performance from UK contracting helped Taylor Woodrow, the construction and property group, increase pre-tax profits from £14m (£22m) to £25.4m in the six months to June.

The result included a £2m charge to cover the cost of closing Myton, the group's refurbishment business, after an £8.3m restructuring charge last time.

Taylor Woodrow also said Mr Tony Palmer, chief executive since 1990, would retire next June.

Mr Colin Parsons, executive chairman, said the board would consider internal and external candidates for the post and hoped to name a replacement before full-year results are announced in March.

Turnover rose from £547m to £566m, with a decline in contracting offset by higher housing sales.

The group continued to turn away contracting work which it regards as uneconomic. Construction turnover declined from £320m to £286m as a result, with the bulk of the fall in UK general contracting.

The construction division reduced its pre-tax deficit from £10.7m to £1.2m, including Myton closure costs. Mr Parsons said UK construction was on target to break even over the full year, but warned that margins on overseas contracting were under pressure as more companies competed for work.

Housing profits increased from £9.1m to £9.6m on turnover up from £116m to £150m. Mr Parsons said that

Taylor Woodrow, the groups UK housebuilding subsidiary, aims to complete 1,800 units this year, an increase of 30 per cent.

In contrast, overseas housebuilding suffered from poor market conditions in Canada and Australia.

The contribution from commercial property was £9.6m (£8.7m), with no material disposals taking place in the period. In March, Taylor Woodrow said it planned to redeploy capital out of property and into housing.

Greenham, the group's building materials supply business, increased pre-tax profits from £3.2m to £3.6m.

The interim dividend is increased by 38 per cent to 1p (0.75p), partly to rebalance the pay-out in favour of the half-year. The shares lost 8p to close at 173p.



Colin Parsons warned margins were under pressure as more companies competed for work.

## NatPower aims to lift rating

By Simon Holberton

National Power, Britain's biggest electricity generator, today begins a campaign to improve its stock market rating at a day-long presentation to 70 institutional investors and analysts.

The company is expected to highlight the value in its foreign operations and their potential contribution to future earnings.

Pre-tax profits from overseas operations amounted to only £15m out of a total of £806m in the year to March. Profits are expected to accel-

erate as the overseas ventures move from start-up to full scale operation.

National Power can, however, expect tough questioning from analysts who believe it has paid too much for Australian and US generating assets.

Mr Keith Henry, chief executive, signalled in an interview yesterday that National Power will begin to defend its share of the generation market. The sale of 4,000MW of plant to Eastern Group, part of Hanson, would take National Power's share of generation below 25 per cent.

"I think we'll stick a peg in the ground at around 25 per cent," he said.

Mr Henry said National Power was well placed to take advantage of liberalisation of the electricity supply market, due in 1998. It was pursuing a joint venture, which might include regional electricity companies and a high street retailer.

The venture would need to have access to 4m-5m customers to be a sensible proposition for National Power. "If not, we will be content to stay in the wholesale market and serve big customers."

## HOENIG GROUP INC.

is pleased to announce  
the election of

FREDRIC P. SAPIRSTEIN

as

Chairman  
and  
Chief Executive Officer

Notice to the Holders of  
Warrants  
to subscribe for shares of  
common stock of

Tosaki Shinju Co., Ltd.

issued in conjunction with

U.S. \$100,000,000

1 1/4 per cent, Guaranteed  
Bonds Due 1997

In respect of the captioned Warrants,  
notice is hereby given as follows:

In accordance with the resolutions of the Board of Directors of Tosaki Shinju Co., Ltd. (the "Company") adopted at its meetings held on 23rd August and 30th August, 1996, the Company shall issue JPY 12,000,000,000 Zero Coupon JPY Convertible Notes due 17th September, 2000, at an initial conversion price of ¥1,025 per share, on 17th September, 1996. The said conversion price is less than the current market price per share of the Company.

As the result of such issue, the Subscription Price of the captioned Warrants has been changed from ¥1,210.0 to ¥1,168.5, effective on 18th September, 1996, Japan time.

TOSAKI SHINJU CO., LTD.  
By: The Norinchukin Bank  
as Principal Paying Agent  
18th September, 1996



## MICHELIN

Compagnie Générale des Établissements Michelin

### Consolidated results, six months to 30th June 1996

Sales during the first half-year were higher than those of the same period last year and Michelin activity levels were generally satisfactory.

In Europe and North America, tyre sales were depressed by the downturn in original equipment markets.

In Asia and South America, markets showed considerable growth and Michelin sales improved strongly.

Sales turnover was FRF34.9 billion, 5.4% up on the first half of 1995. The two principal sources of improvement were increased sales volume and improved sales prices.

Profit on ordinary activities before exceptional items was close to FRF3 billion, almost 50% higher than first half 1995.

Net profit was FRF1.351 billion after charging an exceptional provision of FRF709 million (17.5 billion pesetas) to cover the estimated cost of personnel reorganisation being implemented at the Spanish subsidiary Neumáticos Michelin, S.A., where changes in the size of the workforce have been delayed by the requirements of national regulations.

#### SUMMARY OF THE FINANCIAL RESULTS

Trading profit expressed as a percentage of turnover was 10.4%. It was 31% higher than that for first half 1995, which in itself was up by 26% on the first half of 1994.

The two principal contributors to the improvement in the trading result were sales price levels and cost control.

Revisions of sales prices which were made periodically last year, mainly to recover raw material cost increases, were fully effective in the first half of this year. Average selling prices were 2% up on the first half 1995.

The second factor, reduction of unit production cost, accounted for up to 40% of the increase in the trading result. Actions taken within the framework of the company Plan for cost reductions brought about the improvement.

Net financial charges represented 2.1% of turnover against 2.4% for the first six months of last year. Average debt was unchanged, the drop in financial expenses being attributable to lower rates of interest.

Ordinary profit before exceptional items was FRF2,882 million. The improvement of 928 million compared with the first half 1995 was made up of 861 million increase in trading profit and the balance, from the lower financial charges.

There was an exceptional loss the main component of which was a provision set up by the Spanish subsidiary to cover expenses to be incurred in a reorganisation of the workforce during the next few years.

Cash flow in the first six months of 1996 was FRF4.2 billion, nearly 50% higher than first half 1995.

Consolidated net profit was FRF1.351 billion after charging the exceptional loss, which included the provision of 709 million in respect of the personnel reorganisation in Spain.

Before exceptional items, consolidated net profit was FRF790 million higher than in the first six months of last year.

#### TRENDS AND OUTLOOK

The trends apparent in tyre markets during the first-half of the year are expected to continue. During the summer, business has remained generally buoyant and the position for the year should be satisfactory, showing modest growth in comparison with last year. Cost reductions will continue to make a favourable impact.

For the year 1996 Michelin should, therefore, continue the progress made since 1994.



ISTITUTO PER LA RICOSTRUZIONE INDUSTRIALE (IRI) S.p.A.  
Sede in Roma 00187 - Via Vittorio Veneto, 24  
Capitale sociale L. 6.398.779.156.000 int. vers. - Trib. di Roma n. 8885/92

### INVITATION FOR EXPRESSIONS OF INTEREST IN THE ACQUISITION OF THE SHARE CAPITAL OWNED BY IRI IN SEAT S.p.A., RESULTING FROM THE DEMERGER OF STET, SOCIETA' FINANZIARIA TELEFONICA PER AZIONI

On August 7th, 1996, following the decision of the Italian Government, the Board of Directors of IRI approved the start of the sale procedure of STET's SEAT Division and related activities upon completion of the demerger of STET.

On September 13th, 1996, the Board of Directors of STET approved the commencement of the procedure for the demerger of STET. The demerger project, which will be submitted for the approval of STET's extraordinary shareholders' meeting to be held on October 28th, 1996, includes the incorporation of SEAT S.p.A., the transfer of the SEAT Division and related activities from STET to SEAT S.p.A., and the pro-rata assignment of the shares of the newly incorporated company to the shareholders of STET.

On September 9th, 1996, IRI's ordinary shareholders' meeting approved the terms of the sale of the share capital owned by IRI in SEAT S.p.A., resulting from the demerger (81.27% of the ordinary shares and 0.63% of the savings shares).

An application for the listing of the SEAT S.p.A. shares on the Italian Stock Exchange will be filed in due course.

While the demerger procedure is in progress and subject to its completion, IRI intends to receive expressions of interest in the acquisition of the shares of SEAT S.p.A. that will be assigned to IRI as a result of the demerger of STET.

For the purpose of this transaction IRI has appointed Lehman Brothers International (Europe) as its financial advisor (the "Advisor"). Interested parties should direct any enquiry to:

Lehman Brothers  
Attn: Vittorio Pignatelli Morano, Managing Director  
Piazza del Carmine, 4 - 20121 Milan, Italy  
Tel.: +39.2.72158.1 - Fax: +39.2.72158.230

#### SEAT S.p.A. will include:

- The SEAT Division which publishes the Italian official telephone directories, the Yellow Pages, yearbooks and other specialized business directories for which the SEAT Division sells advertising. In 1995 the SEAT Division recorded total revenues of It. 1.795 billion and a gross operating margin of 39%; at 1995 year end the SEAT Division employed 1,982 persons;
- 77.13% of ILTE - Industrie Librerie Tipografiche Editrice S.p.A. - which prints telephone directories and yearbooks on behalf of the SEAT Division and catalogues and magazines for independent publishers;
- 70% of Multimedie Pubbliche S.p.A., an advertising licensee company for newspapers, magazines, television and local radio networks;
- 49% of SCS - Comunicazione Integrata S.p.A., an advertising agency;
- Other minor equity investments.

This invitation is extended exclusively to limited liability companies with a net worth of not less than It. 50 billion (or Italian Lire equivalent) as at the date of the expression of interest.

In the event that two or more parties acting in concert are interested in the acquisition, their joint expression of interest will be considered provided that each of the parties is a limited liability company, at least one of them complies with the above net worth requirement and they act in concert as a single potential purchaser.

Parties meeting the above requirements should register their interest in the acquisition by contacting the Advisor in writing or by fax, not later than October 3rd, 1996, requesting a copy of the Information Memorandum on SEAT S.p.A., which will be specifically prepared in connection with this transaction.

Upon registration of interest, such parties are requested to send to the Advisor the following documents:

- A copy of the articles of association and company by-laws;
- A list of all members of the Board of Directors and of the Board of Auditors;
- Annual reports for the last three years or, for companies established more recently, annual reports for the available years;
- A list of the ten major shareholders with the indication of their respective shareholdings;
- A copy of the existing shareholders' agreements, if any;
- A current Chancery certificate or a statement of the company's solvency provided by external bodies, and;
- Any other information deemed necessary to illustrate the manufacturing, commercial, organizational and financial position of the parties interested in the acquisition.

In the event that two or more parties acting in concert are interested in the acquisition, the documents attached to the request must refer to each of such parties separately.

Where expressions of interest are made by means of intermediaries, such intermediaries are required to disclose the identity of their principal(s) and to provide the above-mentioned information in respect of such principal(s).

IRI, at its sole discretion and without any obligation to explain its decision, reserves the right to make any decision concerning the commencement of negotiations or any other relationship with any interested parties.

The Advisor will send to the interested parties admitted to the sale procedure a copy of the Confidentiality Letter to be signed and returned to the Advisor. Upon receipt of a duly signed copy of such letter, the Advisor will send a copy of the Information Memorandum, a statement of the procedure to follow in order to submit a preliminary offer and a draft of the final sale agreement to those parties which have met the requirements set out above.

IRI, at its sole discretion at any time, and without any obligation to explain its decision, reserves the right to withdraw from negotiations with interested parties or to terminate any procedure related to the sale regardless of the status of such negotiations, as well as to modify at any time, whether due to insufficient interest or otherwise, the procedure and method of sale without the exercise of such right giving rise to any claim for compensation or damages whatsoever by the interested parties. Furthermore, such claims may not be made even in the event that the demerger of STET fails to occur.

The publication of this invitation and the receipt of expressions of interest do not impose on IRI any obligations or commitments to sell to the interested parties, nor do they give rise to any obligation on the part of IRI to any interested party at any time (including the payment of intermediaries, advisory or consulting fees).

This invitation represents neither a public offer nor a solicitation of public savings under Articles 1 to 18 of Italian Law No. 218 of June 7th, 1974, and subsequent modifications and integrations.

This invitation and the sale procedure are subject to and regulated by Italian law. For any related controversy the exclusive jurisdiction will be that of the competent Court of Rome.

The shares in SEAT S.p.A. assigned to IRI as a result of the demerger of STET have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold within the United States except pursuant to an exemption from the registration requirements thereunder.

This invitation has been approved by Lehman Brothers International (Europe), which is regulated by the Securities and Futures Authority for the purposes of section 57 of the U.K. Financial Services Act of 1986.

The Italian text of this invitation will prevail over that published in any other language.







**By Richard Adams**

■ For the latest market update, ring FT Cityline on +44 890 209909

Step 77	Closing mid-price	Change on close	Bid/offer spread	Day's mid low	One month %/PA	Three months %/PA	One year %/PA	JP Morgan %/PA					
Europe													
Austria	(98F)	10.6351	-0.0083	528 - 578	10.6630	10.6121	10.8686	2.5	10.4010	2.3	106.9		
Belgium	(98F)	31.9001	-0.0100	000 - 000	31.2000	31.2000	31.1725	2.1	31.0175	2.1	305.518		
Denmark	(98F)	5.8284	-0.0186	267 - 300	5.8283	5.8717	5.8203	1.5	5.8003	1.7	6.7348		
Finland	(98F)	4.5474	-0.0018	485 - 510	4.5686	4.5538	4.5416	1.7	4.5286	1.8	4.4833		
France	(98F)	5.1497	-0.0004	490 - 510	5.1497	5.1370	5.1370	1.8	5.1234	1.7	6.5548		
Germany	(98F)	1.5145	-0.0003	130 - 148	1.5181	1.5078	1.5118	2.1	1.5055	2.2	1.4785		
Greece	(98F)	261.0800	-0.55	010 - 110	262.8200	262.7300	-4.5	248.025	-4.5	260.000	-7.9	88.8	
Ireland	(98F)	1.8078	-0.0038	070 - 089	1.8515	1.8044	1.8035	-0.4	1.8095	-0.4	1.8007	0.4	
Italy	(98F)	1.5810	-0.0001	580 - 611	1.5813	1.6000	1.6000	0.7	1.5817	0.7	1.5914	-1.8	76.8
Luxembourg	(98F)	31.9000	-0.0100	000 - 000	31.2000	31.2000	31.125	2.1	31.0175	2.1	305.518	2.1	106.5
Netherlands	(98F)	1.8870	-0.0047	955 - 974	1.9680	1.8500	1.8637	2.4	1.8885	2.5	1.8548	2.5	108.5
Norway	(98F)	0.4772	-0.0111	788 - 788	0.6100	0.4535	0.4748	0.8	0.4857	0.8	0.4522	0.7	9.7
Spain	(98F)	64.4400	-0.0001	640 - 660	65.2500	65.2500	65.1875	-0.4	64.8175	-0.4	64.738	-0.2	66.8
Sweden	(98F)	92.7855	-0.0150	980 - 990	92.7755	92.7755	92.7755	0.4	92.6757	0.4	92.6757	0.4	92.6757
Switzerland	(98F)	6.6221	-0.0085	235 - 317	6.6440	6.6055	6.6025	0.2	6.6280	-0.1	6.6033	0.5	99.2
UK	(98F)	1.2427	-0.0003	434 - 440	1.2455	1.2308	1.2402	3.4	1.2237	3.6	1.1900	3.6	111.0
USA	(98F)	1.5551	-0.0017	148 - 398	1.5577	1.5533	1.5546	0.4	1.5542	0.2	1.5566	-0.1	85.8
SDR		1.2522	-0.0022	91 - 98	1.2555	1.2501	1.2509	-0.2	1.2546	-0.2	1.2503	-0.8	
SDR		-0.08670											
Americas													
Argentina	(98F)	0.6856	-	985 - 990	0.6880	0.6880	-	-	-	-	-	-	-
Brazil	(98F)	1.1918	-	189 - 189	1.1914	1.1910	-	-	-	-	-	-	-
Canada	(98F)	1.5705	-0.0001	703 - 730	1.5715	1.5702	1.5704	0.1	1.5707	0.0	1.5735	-0.2	86.4
Mexico	(98F)	7.2080	-0.0007	080 - 130	7.5183	7.3050	7.3880	-0.5	7.3646	-1.6	8.118	-0.1	81.1
USA	(98F)												
Asia/Pacific													
Australia	(98F)	1.5982	-0.0084	640 - 657	1.6288	1.2646	1.2872	-1.9	1.2707	-1.7	1.2601	-1.8	94.0
Hong Kong	(98F)	7.7338	-0.0008	335 - 380	7.7336	7.7325	7.7335	-0.1	7.7303	-0.1	7.7325	-0.4	
India	(98F)	35.7000	-	000 - 000	35.0000	35.4780	36.880	-8.0	36.185	-5.1	37.820	-5.4	
Indonesia	(98F)	31.7000	-0.0028	978 - 738	3.738	3.165	-	-	-	-	-	-	-
Japan	(98F)	116.2500	-0.0001	940 - 940	116.2500	116.2500	116.2500	4.8	109.885	4.8	105.115	4.8	153.0
Malaysia	(98F)	2.4605	-0.0021	9									

NO.	NO	NO	NO	NO	NO	NO	NO	NO	NO
20.77	495.0	404.0	21.25	3.588	2.002	4.365	3.207	385.5	2.58
11.11	385.5	210.0	11.27	2.194	1.108	2.381	1.716	188.1	1.89
4.705	300.5	245.1	7.78	1.259	2.285	1.241	21.5	21.5	2.5
4.278	102.1	94.29	4.378	0.221	0.425	0.905	0.68	77.2	0.58
10.41	248.7	305.3	10.68	2.004	1.924	2.204	1.808	172.8	1.25
0.434	10.15	9.565	0.434	0.082	0.42	0.080	0.065	7.528	0.06
8.6	91.15	73.22	5.077	0.737	0.929	0.929	0.529	84.5	0.5
10	238.6	197.1	10.24	1.921	0.553	2.115	1.544	170.2	1.25
4.187	100	82.54	4.287	0.044	0.116	0.986	0.947	71.27	0.57
8.6	91.15	73.22	5.077	0.737	0.929	0.929	0.529	84.5	0.5
4.967	235.5	125.0	10	1.876	0.270	0.567	1.508	166.2	1.25
0.207	12.44	10.26	3.331	0.1	0.817	1.102	0.904	88.3	0.84
10.07	340.5	198.5	10.31	1.894	2.28	2.181	1.555	171.4	1.25
4.705	112.9	83.15	4.638	0.028	0.948	1	0.793	84.5	0.5
6.476	144.7	717.7	6.630	1.244	0.493	1.370	1	110.2	0.7
8.875	140.5	115.0	0.135	1.258	1.243	0.907	100	0.73	0.7
11.10	158.5	158.5	1.557	0.806	12.15	1.252	198.5	1	1

Yen, Shards, Uts and shares per 100.

■ JAPANESE YEN FUTURES (MM) Yen 12.5 per Yen 100

	Open	Latent	Change	High	Low	Est. vol	Open
3ep		0.9058				6,710	25.5
Dec	0.5194	0.9198	+0.0007	0.9215	0.9188	12,267	78.17
Mar		0.9119	+0.0005	1	0.9265	34	67.0

■ STEELBAR FUTURES (MM) \$25.00 per 100

	Open	Latent	Change	High	Low	Est. vol	Open
3ep		1.5540				10,847	23.64
Dec	1.5688	1.5594	-0.0098	1.5578	1.5524	11,134	40.23
Mar		1.5530	-0.0008	1	1.5530	36	40.23

[illegible]

<b>▲▲ Open Interest: High, low for previous day</b> <b>▲ BUREAU-DOWD FRANKS OPTIOMS (LFFS) DWTm points of 100%</b>									
Strike Price	CALLS			PUTS			Date	Mkt	Mkt
	Oct	Nov	Dec	Mar	Oct	Nov			
9875	0.05	0.11	0.13	0.16	0.02	0.05	0.07	0.01	0.58
9880	0.05	0.02	0.03	0.05	0.05	0.05	0.02	0.01	0.58
9885	0	0	0	0.02	0.44	0.44	0.44	0.50	0.50
Est. vol. total, Cals 37672 Puts 13865. Previous day's open int., Cals 30078 Puts 22449									
<b>▲ BUREAU-DOWD FRANKS OPTIOMS (LFFS) SFr 1m points of 100%</b>									
Strike Price	CALLS			PUTS			Date	Mkt	Mkt
	Dec	Mar	Jun	Dec	Mar	Jun			
9880	0.11	0.17	0.15	0.20	0.38	0.37	0.75	0.75	0.75
9885	0.03	0.07	0.03	0.27	0.53	0.53	0.57	0.57	0.57
Est. vol. total, Cals 1550 Puts 16. Previous day's open int., Cals 2058 Puts 104									
<b>▲ BUREAU-DOWD FRANKS OPTIOMS (LFFS) L10000n points of 100%</b>									
Strike Price	CALLS			PUTS			Date	Mkt	Mkt
	Dec	Mar	Jun	Dec	Mar	Jun			
9880	0.25	0.35	0.73	0.22	0.20	0.24	0.24	0.24	0.24
9885	0.14	0.38	0.68	0.36	0.29	0.32	0.32	0.32	0.32
9890	0.07	0.27	0.41	0.64	0.42	0.43	0.43	0.43	0.43

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Jun	95.81	95.81	+0.01	95.88	95.81	244	3014
Sep	95.41	95.40	+0.02	95.45	95.40	128	1782

\* LIFFE futures also traded on APT

1000

• • • • •











**FT MANAGED FUNDS SERVICE**

## LIVENDOLIBO

[illegible][illegible]



### Offshore Insurances and Other Funds

[illegible]



**INVESTMENT TRUSTS - Cont.**[illegible]

Wardrobe	1071	110
Home Growth 1000	108	105
Home Growth 1000	108	105

[illegible]

Inc. Addl. ....	100.00	100.00	100.00
Units .....	100.00	100.00	100.00
Harry A. Smith, Esq. ....	100.00	100.00	100.00

[illegible]

44

[illegible][illegible][illegible]

10-10-1964  
 10-10-1964  
 10-10-1964

[illegible][illegible]

H Supply	2201	+15	2201
rust of Prop	00	m	00

[illegible]

210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
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[illegible]



INV TRUSTS SPLIT CAPITAL - Cont.

Trust Name	Share Price	Dividend
...	...	...

LEISURE & HOTELS - Cont.

Company	Share Price	Dividend
...	...	...

LIFE ASSURANCE

Company	Share Price	Dividend
...	...	...

MEDIA

Company	Share Price	Dividend
...	...	...

PAPER, PACKAGING & PRINTING - Cont.

Company	Share Price	Dividend
...	...	...

RETAILERS, FOOD

Company	Share Price	Dividend
...	...	...

TELECOMMUNICATIONS - Cont.

Company	Share Price	Dividend
...	...	...

AIM - Cont.

Company	Share Price	Dividend
...	...	...

TEXTILES & APPAREL

Company	Share Price	Dividend
...	...	...

RETAILERS, GENERAL

Company	Share Price	Dividend
...	...	...

PHARMACEUTICALS

Company	Share Price	Dividend
...	...	...

PROPERTY

Company	Share Price	Dividend
...	...	...

SUPPORT SERVICES

Company	Share Price	Dividend
...	...	...

OTHER INVESTMENT TRUSTS

Trust Name	Share Price	Dividend
...	...	...

OIL, EXPLORATION & PRODUCTION

Company	Share Price	Dividend
...	...	...

INVESTMENT COMPANIES

Company	Share Price	Dividend
...	...	...

OIL, INTEGRATED

Company	Share Price	Dividend
...	...	...

OTHER FINANCIAL

Company	Share Price	Dividend
...	...	...

LEISURE & HOTELS

Company	Share Price	Dividend
...	...	...

PAPER, PACKAGING & PRINTING

Company	Share Price	Dividend
...	...	...

TELECOMMUNICATIONS

Company	Share Price	Dividend
...	...	...

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ROD HILL, MANAGING DIRECTOR, LIVERPOOL AIRPORT

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Company classifications are based on those used for the FT-SE 100 and FT-SE 250 indices.

Share prices are shown in pence unless otherwise stated. Rights and loans are shown in pence unless otherwise stated.

Where shares are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend cover are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Exchange rates are based on the Bank of England's daily rates. Exchange rates are shown in pence per pound sterling.

Prices are shown in pence unless otherwise stated. Rights and loans are shown in pence unless otherwise stated.

Estimated Net Asset Value (NAV) are shown for Investment Trusts, in pence per share, along with the percentage discount or premium to NAV. The NAV is the current closing share price. The NAV does not include the value of any rights or loans.

Estimated Net Asset Value (NAV) are shown for Investment Trusts, in pence per share, along with the percentage discount or premium to NAV. The NAV is the current closing share price. The NAV does not include the value of any rights or loans.

Estimated Net Asset Value (NAV) are shown for Investment Trusts, in pence per share, along with the percentage discount or premium to NAV. The NAV is the current closing share price. The NAV does not include the value of any rights or loans.

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

Table with 4 columns: Country, Stock Index, High, Low, and Change. Includes data for Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, Switzerland, and the UK.

ASIA

Table with 4 columns: Country, Stock Index, High, Low, and Change. Includes data for Hong Kong, Japan, Korea, Malaysia, Singapore, Taiwan, and Thailand.

AFRICA

Table with 4 columns: Country, Stock Index, High, Low, and Change. Includes data for South Africa.

AMERICA

Table with 4 columns: Country, Stock Index, High, Low, and Change. Includes data for Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

OCEANIA

Table with 4 columns: Country, Stock Index, High, Low, and Change. Includes data for Australia and New Zealand.

MIDDLE EAST

Table with 4 columns: Country, Stock Index, High, Low, and Change. Includes data for Israel.

INDICES

Table with 4 columns: Index Name, High, Low, and Change. Includes data for various regional and global indices.

US INDICES

Table with 4 columns: Index Name, High, Low, and Change. Includes data for Dow Jones, S&P 500, and other US market indices.

INDICES

Table with 4 columns: Index Name, High, Low, and Change. Includes data for various regional and global indices.

US INDICES

Table with 4 columns: Index Name, High, Low, and Change. Includes data for various US market indices.

US INDICES

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US INDICES

Table with 4 columns: Index Name, High, Low, and Change. Includes data for various US market indices.




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## NYSE PRICES

**NASDAQ NATIONAL MARKET**[illegible]

W 10										W 10										W 10										
Acc	Ch	W	10	10	10	10	10	10	10	Acc	Ch	W	10	10	10	10	10	10	10	Acc	Ch	W	10	10	10	10	10	10	10	
ACC Corp	0.12540	827	54	51%	51%	51%	51%	51%	51%	ACC Corp	0.12540	827	54	51%	51%	51%	51%	51%	51%	ACC Corp	0.12540	827	54	51%	51%	51%	51%	51%	51%	51%
Acc	7.1955	54	51%	51%	51%	51%	51%	51%	51%	Acc	7.1955	54	51%	51%	51%	51%	51%	51%	51%	Acc	7.1955	54	51%	51%	51%	51%	51%	51%	51%	
Acc	57.1822	244	34%	34%	34%	34%	34%	34%	34%	Acc	57.1822	244	34%	34%	34%	34%	34%	34%	34%	Acc	57.1822	244	34%	34%	34%	34%	34%	34%	34%	
Acc	34.9498	244	34%	34%	34%	34%	34%	34%	34%	Acc	34.9498	244	34%	34%	34%	34%	34%	34%	34%	Acc	34.9498	244	34%	34%	34%	34%	34%	34%	34%	
Acc	49.02	244	34%	34%	34%	34%	34%	34%	34%	Acc	49.02	244	34%	34%	34%	34%	34%	34%	34%	Acc	49.02	244	34%	34%	34%	34%	34%	34%	34%	
Acc	19.2028	244	34%	34%	34%	34%	34%	34%	34%	Acc	19.2028	244	34%	34%	34%	34%	34%	34%	34%	Acc	19.2028	244	34%	34%	34%	34%	34%	34%	34%	
Acc	0.118	31	2.35%	34%	34%	34%	34%	34%	34%	Acc	0.118	31	2.35%	34%	34%	34%	34%	34%	34%	Acc	0.118	31	2.35%	34%	34%	34%	34%	34%	34%	
Acc	0.12	32.9235	34%	34%	34%	34%	34%	34%	34%	Acc	0.12	32.9235	34%	34%	34%	34%	34%	34%	34%	Acc	0.12	32.9235	34%	34%	34%	34%	34%	34%	34%	
Acc	1.748	81	74%	74%	74%	74%	74%	74%	74%	Acc	1.748	81	74%	74%	74%	74%	74%	74%	74%	Acc	1.748	81	74%	74%	74%	74%	74%	74%	74%	
Acc	13.4331	81	34%	34%	34%	34%	34%	34%	34%	Acc	13.4331	81	34%	34%	34%	34%	34%	34%	34%	Acc	13.4331	81	34%	34%	34%	34%	34%	34%	34%	
Acc	102.5881	34	34%	34%	34%	34%	34%	34%	34%	Acc	102.5881	34	34%	34%	34%	34%	34%	34%	34%	Acc	102.5881	34	34%	34%	34%	34%	34%	34%	34%	
Acc	0.40	57.974	44%	44%	44%	44%	44%	44%	44%	Acc	0.40	57.974	44%	44%	44%	44%	44%	44%	44%	Acc	0.40	57.974	44%	44%	44%	44%	44%	44%	44%	
Acc	0.12	10.2028	244	34%	34%	34%	34%	34%	34%	Acc	0.12	10.2028	244	34%	34%	34%	34%	34%	34%	Acc	0.12	10.2028	244	34%	34%	34%	34%	34%	34%	
Acc	0.12	10.2028	244	34%	34%	34%	34%	34%	34%	Acc	0.12	10.2028	244	34%	34%	34%	34%	34%	34%	Acc	0.12	10.2028	244	34%	34%	34%	34%	34%	34%	
Acc	0.12	10.2028	244	34%	34%	34%	34%	34%	34%	Acc	0.12	10.2028	244	34%	34%	34%	34%	34%	34%	Acc	0.12	10.2028	244	34%	34%	34%	34%	34%	34%	
Acc	0.12	10.2028	244	34%	34%	34%	34%	34%	34%	Acc	0.12	10.2																		

## AMEX PRICES

[illegible][illegible]

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